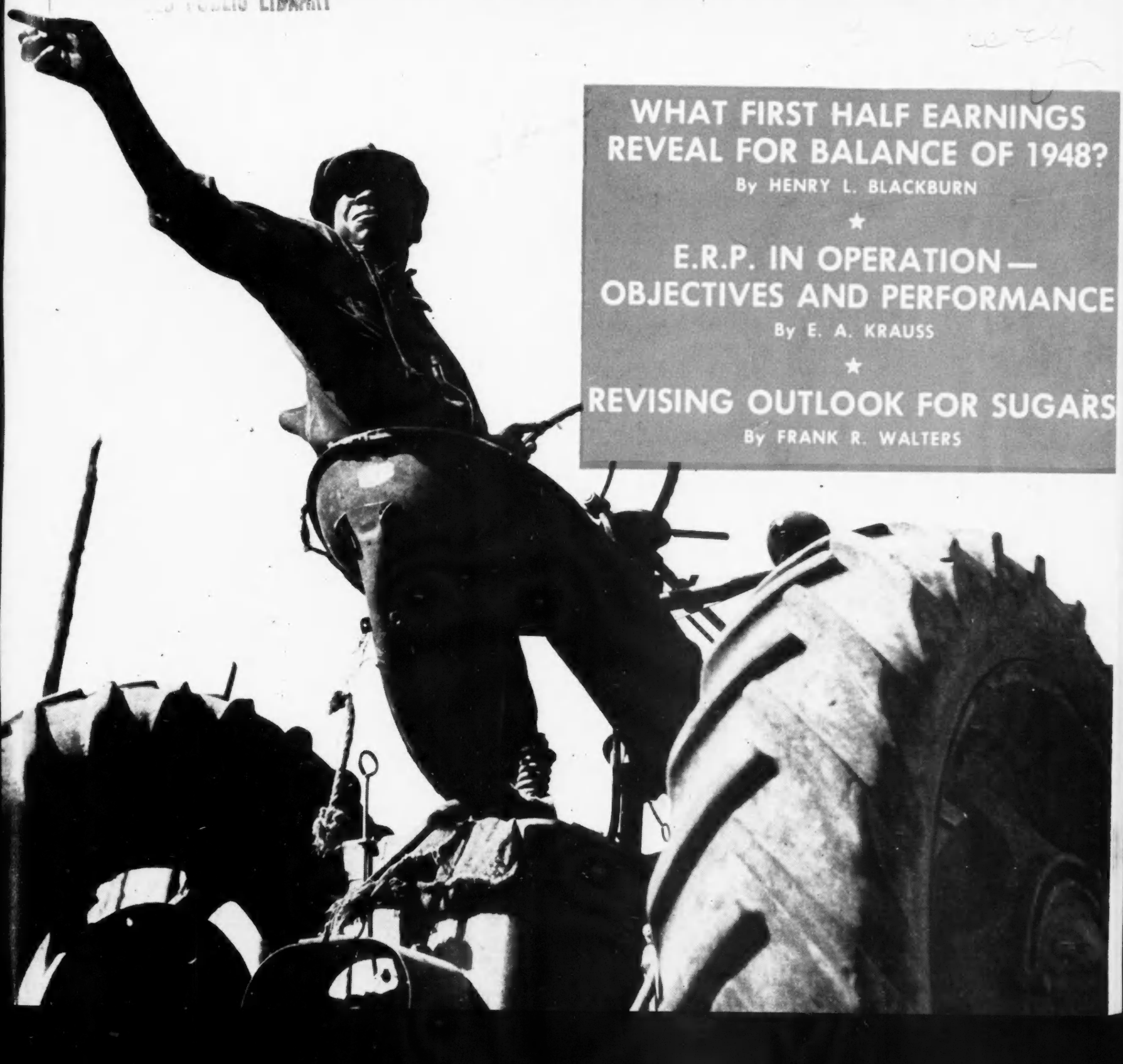
★ MARKET RE-APPRAISING COMPANY PROSPECTS ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JULY 31, 1948

50 CENTS



WHAT FIRST HALF EARNINGS REVEAL FOR BALANCE OF 1948?

By HENRY L. BLACKBURN

★

E.R.P. IN OPERATION — OBJECTIVES AND PERFORMANCE

By E. A. KRAUSS

★

REVISING OUTLOOK FOR SUGARS

By FRANK R. WALTERS

AMERICAN CAR AND FOUNDRY COMPANY

acf FORTY-NINTH ANNUAL REPORT — YEAR ENDED APRIL 30, 1948 acf

CONSOLIDATED BALANCE SHEET APRIL 30, 1948

ASSETS

PLANT AND PROPERTY ACCOUNT (See Note 1):			
Land and Improvements		$ 7,107,347.75	
Buildings, Machinery and Equipment	$105,369,747.05		
Less: Amortization and Reserve for Depreciation	53,237,261.12	52,132,485.93	
Intangibles		18,889,456.67	$78,129,290.35
CURRENT ASSETS:			
Cash in banks and on hand		$ 7,609,574.00	
U. S. Government Securities at cost (Quoted market value $834,070.31)		844,281.26	
Accounts Receivable, less reserve		15,150,190.42	
Accrued Unbilled Escalation Charges (estimated)		1,614,893.96	
Notes Receivable, less reserve (includes $480,113.37 maturing subsequent to one year)		789,731.81	
Inventories at cost or less, and not in excess of present market prices		67,910,972.58	
Marketable Securities, at cost or less (Quoted market value $1,992,312.63)		1,923,761.72	95,843,405.75
PREPAID TAXES, INSURANCE, AND LIKE ITEMS			748,133.08
MISCELLANEOUS SECURITIES, less reserve			103,564.34
			$174,824,393.52

NOTE 1: Plant and Property of Parent Company included in above valuations were inventoried and valued by Coverdale & Colpitts, Consulting Engineers, as of April 30, 1939, on the basis of values at March 1, 1913, with subsequent additions at cost. Plant and Property of Subsidiary Companies are included at cost.

LIABILITIES

CAPITAL STOCK:		
Preferred:		
Authorized and issued 300,000 shares—par value $100.00 per share	$30,000,000.00	
Less: 10,550 shares of Treasury Stock	1,055,000.00	$28,945,000.00
Common:		
Authorized and issued 600,000 shares—no par value	$30,000,000.00	
Less: 600 shares of Treasury Stock	30,000.00	29,970,000.00
CURRENT LIABILITIES:		
Bills Payable—Banks	$21,875,000.00	
Accounts Payable and Payrolls	18,324,090.69	
Provision for Federal, State and Local Taxes	4,426,683.21	
Advance payments received on sales contracts	1,068,794.64	
Sinking Fund requirements due within one year under indentures securing debenture issues of Shippers' Car Line Corporation	685,000.00	46,379,568.54
SINKING FUND DEBENTURES OF SHIPPERS' CAR LINE CORPORATION, A CONSOLIDATED SUBSIDIARY:		
3% DUE APRIL 1, 1961	$ 4,475,000.00	
3% DUE JULY 1, 1962	3,300,000.00	
3¼% DUE APRIL 1, 1963	2,340,000.00	10,115,000.00
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY		7,347.38
RESERVE ACCOUNTS:		
For Employees' Welfare Plan (See Note 2)	$ 4,700,037.81	
For Contingencies	8,795,988.40	
For Dividends on Common Capital Stock, to be paid when and as declared by Board of Directors	735,744.74	14,231,770.95
CAPITAL SURPLUS:		
Excess of acquired equities over cost of investment in consolidated subsidiary	$ 2,397,790.63	
Excess of par (or stated) value of Treasury Stock over cost of acquisition	551,600.25	2,949,390.88
EARNED SURPLUS ACCOUNT, See Statement		42,226,315.77
		$174,824,393.52

NOTE 2: The Reserve for Employees' Welfare Plan has, during the year, been charged with the net amount (after tax benefits) of $258,688.31 on account of employees' retirement cost applicable to past services.

STATEMENT OF CONSOLIDATED INCOME ACCOUNT

Gross Sales and Car Rentals, less discounts and allowances		$131,360,756.25
Cost of Operations, including Administrative, Selling and General Expense, but before Depreciation		121,003,720.44
		$ 10,357,035.81
Depreciation		3,215,668.72
Earnings from Operations		$ 7,141,367.09
Other Income:		
Dividends	$114,830.93	
Interest	434,068.64	
Royalties	63,938.78	
Profit on Sale of Securities	439.65	
Miscellaneous	32,466.30	645,744.30
		$ 7,787,111.39
Other Charges:		
Interest	$554,572.58	
Royalties	342,076.67	
Property Retirements	226,021.04	
Miscellaneous	124,893.83	1,247,564.12
Net Earnings before Provision for Federal Income Taxes		$ 6,539,547.27
Deduct—Provision for Federal Income Taxes (See Note 1)		2,435,595.46
Net Earnings Carried to Surplus		$ 4,103,951.81

ERNEST W. BELL AND COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
25 BEAVER STREET, NEW YORK

TO THE STOCKHOLDERS OF
AMERICAN CAR AND FOUNDRY COMPANY,
30 CHURCH STREET, NEW YORK CITY.

We have examined the Consolidated Balance Sheet of the American Car and Foundry Company and its subsidiaries as of April 30, 1948, and the Consolidated Statements of Income and Surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

As the result of a change in cost accounting methods, certain engineering costs, which in prior years were considered as general and administrative expenses, have in the current year been treated as direct charges to production costs. Accordingly, costs of $1,539,346.33 repesenting engineering expenses have been included in closing inventory of work in process with a resultant increase of approximately $950,000.00 in net earnings after Income Taxes.

In our opinion, the accompanying Balance Sheet and related Statements of Income and Surplus present fairly the consolidated position of the American Car and Foundry Company and its subsidiaries at April 30, 1948, and the consolidated results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied (except as stated above in respect to the treatment of engineering costs) on a basis consistent with that of the preceding year.

July 1, 1948 ERNEST W. BELL AND COMPANY

STATEMENT OF CONSOLIDATED EARNED SURPLUS

Balance, May 1, 1947		$ 41,946,713.96
Add: Net Earnings for year		4,103,951.81
		$ 46,050,665.77
Deduct: Dividends paid during the year on capital stock publicly held, viz.:		
On Preferred, $3.50 per share from earnings for year ended April 30, 1947 and $3.50 per share from earnings for year ended April 30, 1948	$ 2,026,150.00	
On Common, $3.00 per share	1,798,200.00	3,824,350.00
Balance, April 30, 1948		$ 42,226,315.77

NOTE 1: Federal taxes are shown before tax benefit of $158,828.29 as a result of charges made to the Reserve for Employees' Welfare Plan. This saving has been applied as a reduction in the charge to said reserve.

NOTE 2: Since the prior service cost under the Employees' Welfare Plan has not been fully funded, the unfunded portion is increased each year by the actuarially required interest on such unfunded portion. The amount of such interest on the unfunded prior service cost would, if currently paid, amount (after income taxes) to approximately $101,000.00 for the fiscal year ended April 30, 1948.

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 82, No. 9 July 31, 1948

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Japan Under U.S. Occupation

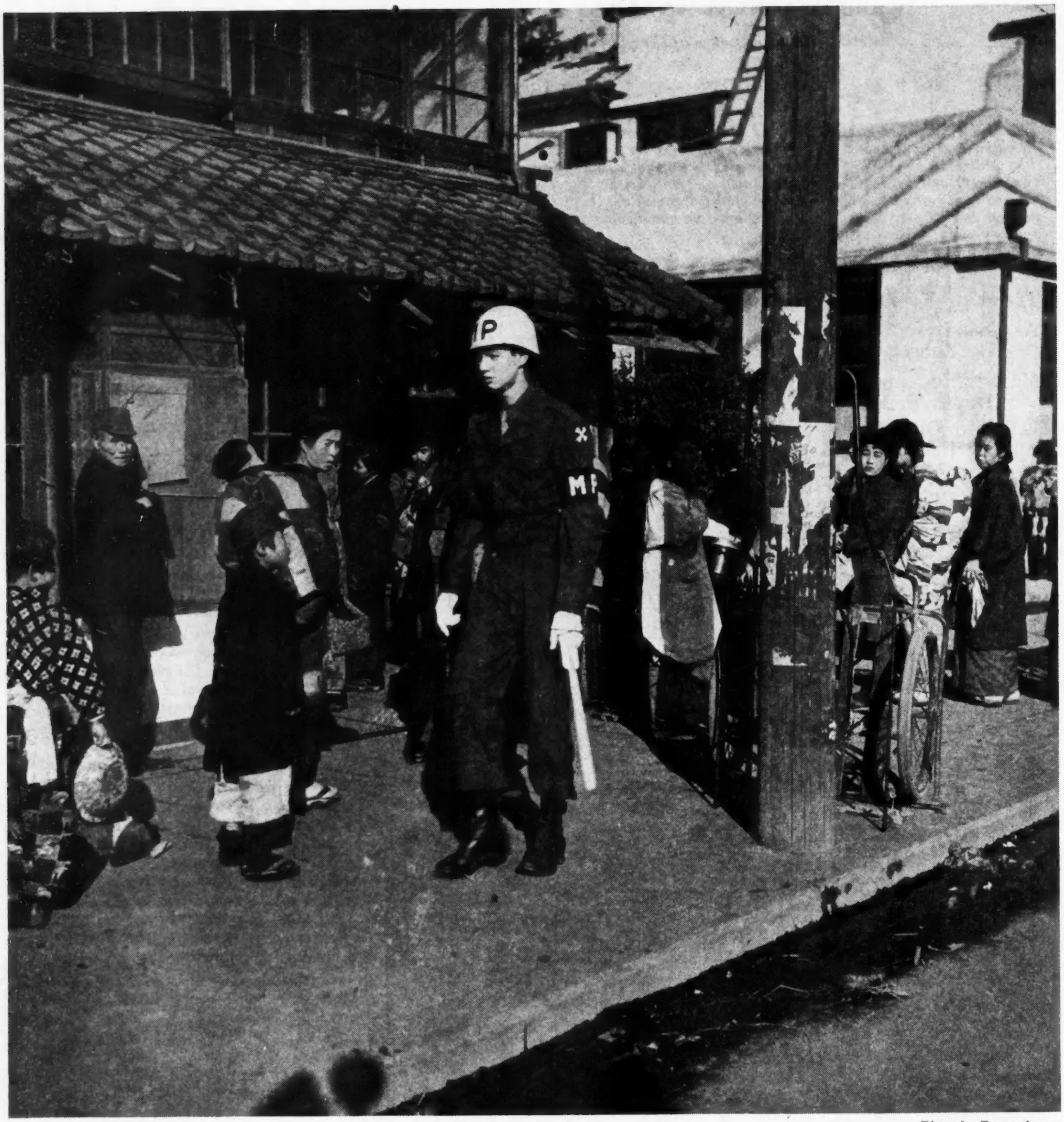
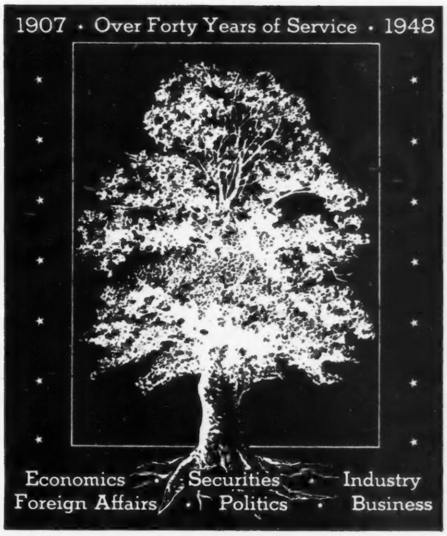


Photo by Press Assoc.

A lone member of a United States Military Police Battalion patrolling a Toyko street symbolizes the firm hand of Uncle Sam in maintaining order in conquered lands. Although the Japanese eye the American uniform with mixed feelings of admiration and resentment, the element of respect for authority is universal. All know that the MP is there to protect them as well as to prevent any breach in public discipline.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

INFLATION AND THE STOCKHOLDERS... Deterioration of the buying power of the stockholder's dividend income has frequently been blamed for the failure of the stockmarket to reflect more adequately our inflationary postwar boom. Common stock prices have lagged far behind the sharp rise in commodity prices, and investors generally have fared far worse than any other group in terms of net purchasing power derived from dividend income, despite the fact that such income has frequently increased appreciably. But such increase, where it occurred, was far outdistanced by higher prices and taxes. For that reason, common stock investments have been poor inflation hedges. Moreover, dividend income normally available for reinvestment is in ever greater degree required to help defray sky-rocketing living costs, and the absence of such funds from the investment market is being distinctly felt.

A striking example of the lessened purchasing power of investors is furnished by a compilation of the National City Bank of New York, reprinted on page 374 of our last issue under the caption "Casualties of Inflation." It shows the extent to which a person is better or worse off than in 1930, including disparities among the various groups of wage earners, bondholders and stockholders. The position of the latter is of particular interest. It shows that a "small stockholder" with a $3,000 dividend income in 1930 has since lost 21% of his purchasing power. Taking into account price inflation and income taxes, his investment in 1947 returned only four-fifths of his former net purchasing power despite the fact that dividend income before taxes had increased to $3,700.

Even more drastically, a "well-to-do" stockholder with a dividend income of $30,000 lost 42%, and a "wealthy" stockholder with a $300,000 annual dividend income lost fully 69% of his 1930 purchasing power. If these investors had other sources of income, the drop in purchasing power would even be greater because they then fall in still higher tax brackets. Bondholders as a group have fared still worse, as interest rates have declined whereas dividend rates have risen to some extent, if not always. Thus the erosion of purchasing power of bondholders has been calculated at 62%.

The experience of the stockholders hardly squares with the frequent criticism that corporations are making too much money. Were they to earn less, with resultant smaller dividends, the stockholders' plight would be even more sorry. True, corporations generally last year paid out a smaller percentage of earnings in the form of dividends than ever before, and this year they are doing only a little better, but corporations are having their own inflation troubles. They are severely hit by the "high cost of doing business", apart from the extraordinary needs for new capital to finance postwar expansion and the difficulty in raising new funds in the capital market. This difficulty, of course, can in part at least be traced back to the factors mentioned at the outset which tend to cut short available reinvestment funds.

The overall picture disclosed by the National City Bank's computation is revealing. It shows how poorly the "bloated bondholder" and the "wealthy stockholder", any stockholder in fact, has fared in

relation to organized labor which generally managed to improve their position in terms of relative purchasing power, often substantially so. Improvement of the investor's position hinges on tax and inflation relief, or on larger dividends as well as lower taxes while inflation runs its course. While the former, in many cases, may be a better prospect than the latter, the stockholder is unlikely to get either in a degree required to redress his position. What is needed is not only distribution of a larger percentage of corporate income as dividends (once postwar capital requirements have been largely met), but tax relief through abandonment or abatement of double taxation. Only in this manner can a healthy equity market be restored, particularly for new issues.

PRICE CONTROLS . . . The President's announced intention of pressing for restoration of price controls at the forthcoming session of Congress is clearly a political move, but whether political or not, pressure to do something about prices has doubtless risen considerably. Prices of virtually every category are moving into new high ground once more and the squeeze on consumers is mounting steadily with a high percentage of people now living beyond their means because of higher living costs.

Yet the case against restoration of price controls is strong, especially if we consider the causes of the latest wage-price spiral. A good deal of blame for rising prices can be placed squarely on the Government's shoulders, for the Administration has consistently encouraged wage increases, enormously expanded Government spending, added to the already greatly swollen Government payroll, kept food costs high by its farm price support policy, and otherwise has done little or nothing to restrain inflationary pressures. As the record shows, every demand for wage boosts has been successful, and perhaps most of all in those instances in which the Government has stepped in as in the coal and railroad controversies. And every increase in wages was promptly followed by higher prices for the consumer.

If now, in the exercise of some emergency power or by legislation, the President would restore price control and allocation of commodities, it would mean further postponement of the day when balance or near-balance will be restored between production and consumption. During the war, price controls were fully justified, though they would have been far more effective if accompanied by effective wage control. During that period it would have been impossible to increase the supply of consumer goods by letting prices rise. But things are different now.

Under the stimulus of a rising price trend and enormous effective demand for goods and commodities, output has risen to unprecedented peacetime levels. If prices were now arbitrarily and artifically frozen (a roll-back is out of the question) at present levels, while labor and other costs keep rising, production sooner or later would be cut sharply because of curtailment or disappearance of profit margins. Break-even points today are high in most industries and it wouldn't take much of a profit squeeze to eliminate profits entirely. The end-result would be a renewed shortage of goods, revival of black markets and new burdens for the consumer, quite apart from the impact on industry and the economy as a whole.

The only practical and effective way to fight inflation is to attack the causes rather than the symptoms, and from this the Administration has consistently shied away despite the availability of adequate authority to act in this direction. It is in the fiscal and monetary field where action must be taken. Resort to arbitrary controls will do more harm than good. Nor can selective price ceilings on a few key commodities like steel and meats do the trick. Our price mechanism is once more functioning normally and any interference is bound to have adverse repercussions.

RISE IN STEEL PRICES . . . In view of the Administration's campaign for revival of price controls, the latest rise in steel prices has come at an unfortunate moment. We can expect that much will be made of it as ammunition to support the drive for new controls; and as a corollary, much will undoubtedly be made of the probably excellent earnings of the steel industry soon to be reported for the second quarter.

If only to weaken political pressure to reimpose price controls, it might perhaps have been better, had the price hikes for steel been postponed. Yet one cannot help thinking that they were made at this time as a protective move, just because of the possibility of reimposition of price controls. The element of uncertainty thereby introduced into industrial pricing policies may well induce many other industrial concerns to raise their prices in turn. Already there is talk of another boost in automobile prices, and other steel consumers are likely to follow suit at an early date. If so, much will likewise be made, at the congressional session, of the impact of the steel price rise on the general level of industrial prices. Yet that very impact, in the absence of a threat of new price controls, might have been not nearly as drastic as it now promises to be.

The boost in steel prices exceeded general expectations but according to industry statements, the increases were necessary to compensate for past and present rises in costs. As it coincides with introduction of fob pricing, the impact on many consumers will be doubly severe. Yet it might be worth remembering that resort to fob pricing, raising steel costs for most consumers not located near steel mills, was the direct result of Government policy rather than of the steel industry's choosing. If that policy is now reacting in embarrassing fashion, it is hardly the industry's fault. Yet efforts have been made to create the opposite impression, and more such efforts are likely to be witnessed in the future.

The steel industry in the past followed a conservative policy under its system of basing point pricing. Had there been free play of supply and demand, steel prices would be far above present levels, as attested by the existence of excessive "grey market" prices for steel products. If Government policies have contributed to the need for an upward price revision at this time, the industry can hardly be taken to task for it.

As I See It!

By ROBERT GUISE

THE PRICE OF WEAKNESS

THE critical situation facing the western nations at Berlin and elsewhere in the world, their failure or rather their inability during the three years since the war's end to build a real world peace, is commonly attributed to Russian recalcitrance and communist designs for world power. This is true enough. The Soviet policy and aggressiveness has been a primary stumbling block to postwar efforts of recreating a peaceful and secure world. But in some ways, blaming Russia alone for the evils of the world today is like putting the cart before the horse.

In the final analysis, we ourselves must assume a goodly share of the blame simply because our own actions and policies have enabled Russia to become the threat to world peace that she is today. If once more we appear to be on the brink of war, the reason lies not only in the many blunders and miscalculations that characterized our policies as far back as Teheran, Yalta and Potsdam, but ever since the end of the war.

One of the worst mistakes, in view of what competent and realistically thinking quarters must have sensed would develop in Russo-Western relations, was our one-sided, rapid and complete demobilization as soon as the shooting war was over. It transmuted our former great strength into weakness, and for this weakness we are now forced to pay a stiff price. It is a fair assumption that had we held on to our strength, our difficulties with Russia would never have reached this critical stage, since we would have been far better able to cope with them. As it is, once more in our history we are forced "to talk softly until we carry a bigger stick." At this writing, the developments in the Berlin crisis point in this direction.

"THE SITUATION IS SLIGHTLY AWKWARD"

Smith in the Lancaster Intelligence Journal

The price we now must pay for our weakness assumes many forms. We pay it in money, in political and economic unsettlement, in diplomatic disadvantage necessitating painful compromise. We pay it in the form of colossal national budgets imposed on our country, perhaps for years, to rebuild at this late stage our armed strength, to keep us strong in the face of future eventualities, and to assist our allies, left a helpless prey to Russian pressure and encroachment by our premature demobilization. And the price comes high not only in a material sense alone, in heavy and prolonged tax burdens, in added inflationary pressures, in the slow undermining of our standard of living. It has to be paid in the coin of great world-wide disillusionment and insecurity. At worst, the ultimate price may be another world war though we hope that it is not too late to avoid such a tragedy. At best, we face a long period of tension, an atmosphere of alternate hope and fear which will make it difficult for us and the western nations to conduct a normal economic life.

Still there should not be the slightest relaxation in our efforts to redress a badly fumbled situation. To gain peace and security, both for us and for the world in which we must live, we must again become strong, politically, economically and militarily. Any alternate course is impossible to contemplate. As it is, we are now in the deplorable position where our major foreign policies are unduly influenced by foreign considerations rather than our own, where frequently they are the outcome of successive expediencies. Only by recovery of strength can we obtain the necessary freedom of action. Absolutely indispensable, also, is diplomatic leadership that henceforth must be as brilliant as it was incompetent in the past. Without such leadership, even the stiff price now exacted from us may be paid in vain.

Were it not for our basic weakness, our present predicament in Berlin would never have arisen. In order to repair the damage and to stay in Berlin without having to fight a war about it, we are now forced to recede from a position to which we were openly committed—to retreat from the London agreements which because of our relative weakness found only half-hearted support among our allies. If we concede under Russian pressure to four-power negotiations about the whole of Germany, we shall give the Russians a cheap and easy victory.

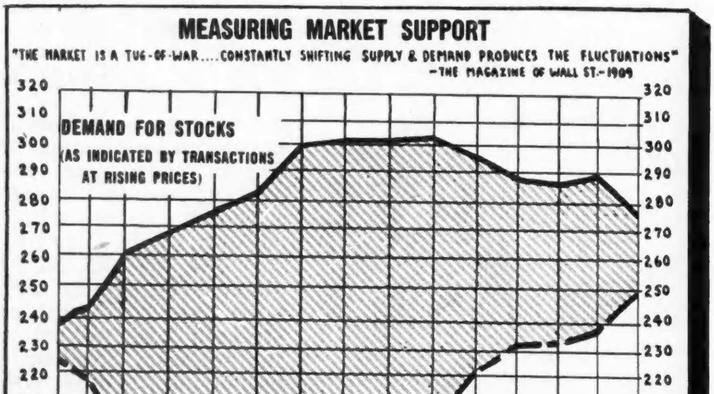
Market Re-appraising Company Prospects

Last week's technical rally is unlikely to go much, if any, further. The testing of recent lows will determine whether there is to be a trading-range market for a time or at least an intermediate downtrend. We do not see any basis for sustained advance any time soon. Our policy remains cautious. Hold, or raise, substantial cash reserves.

By A. T. MILLER

Within the fortnight since our last previous analysis was written, the market suffered a fairly sharp decline, and then made up a little less than one-half of the loss in a leisurely rally which appeared to be of purely technical character. The main damage was done in three consecutive sessions of relatively heavy selling late in the trading week ended July 16 and early last week. This was followed by four sessions of recovery to the end of last week, on which the volume of transactions tended to dwindle progressively. At the low point of reaction to date, the Dow-Jones industrial average had sagged to within a fraction of 179, from the early summer high just above 193; and it stands around 185 as this article goes to press.

When a number of influences combine to cause a sudden market fall, it is never possible to determine just what part each of them played. The three sessions of heaviest selling coincided with the playing up of an acute war scare in the newspapers and over the radio. The war scare did not result from any new move by Moscow, but from inspired stories, given out by unidentified U. S. officials, to the effect that consideration was being given to a plan to "test" the Berlin blockade by trying to move an armed convoy or train into the city. This idea got an unfavorable reaction from the British and French, and from the American public, and therefore was quickly dropped. During much of last week the officials, from the President down, were trying to calm the fears by talking peace and emphasizing that there would be renewed efforts to end the Berlin impasse by diplomatic procedures. This change of tone facilitated the slow rally. By the end of last week, the Berlin crisis was off the front pages of the newspapers, at least for the time being.



Other Influences at Work

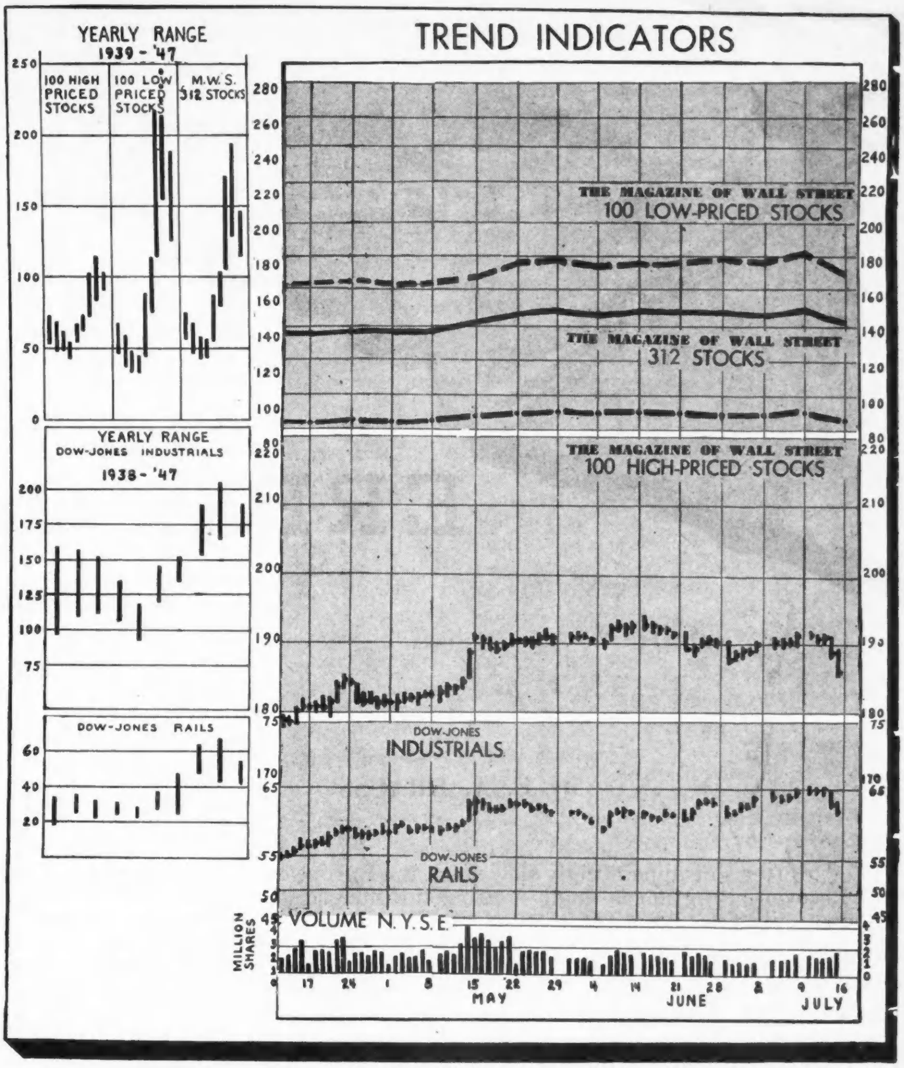
Another cause of the decline was a vulnerable technical position. Given that, something usually comes along in the news to serve as an excuse for more or less of a nose-dive. For a good many weeks prior to this break, the market has been unable to make any significant progress. There had been considerable "Dow Theory buying," much of it speculative, in May after the industrial average had for the first time risen through the 1947 recovery high of roughly 186; but the continuous investment-speculative demand which is required for a sustained market advance failed to materialize. This left the Dow Theory bulls "hung up" and increasingly nervous over the market's largely negative action. As is not surprising, the initial selling on the break was largely professional, the later selling mainly public.

We are not inclined to over-emphasize the uncertainty injected by the calling of the special session of Congress as a cause of the decline, although it undoubtedly played some part. It is more likely to make for temporarily increased caution to buyers than to induce sale of existing holdings; and hence it is one of the obstacles—but only one—in the way of a

renewed market advance as distinct from a mere rally.

Of course, the market decline itself does more than anything else to lower previous bullish hopes. At best, it probably will take a period of weeks to build a new base for advance, by which time the usually favorable seasonal influence of the summer period may have been dissipated. We are not inclined to expect a large further decline in the face of continuing good business, generally excellent half-year earnings reports and a daily list of raised or extra dividends; but the 179-180 reaction low will almost certainly be subject to further tests, and there is not much point in trying to predict the outcome. The prevailing uncertainties point against worthwhile advance. As long as that is so, it is impossible to foresee how much discouraged liquidation of stale positions might develop; and, generally speaking, it will probably be better tactics to sell stocks on rallies than to buy on dips.

Nearly a month ago, in our issue dated July 3, with the Dow industrials around 190, we stated that the market looked "tired" to us; outlined a number of uncertainties and abnormalities in the situation; and recommended enough profit-taking to raise cash reserves to about 50%. We continue to advise holding no more than a 50% invested position in average accounts, but the word "average" should be emphasized, since the circumstances and requirements of individual investors vary greatly. Where uninterrupted investment income is essential, it may not be feasible to hold 50% reserves; but in most such cases fixed-income securities make up a conservative portion of holdings. Generally speaking, this is a time to increase that portion and to reduce the portion in equities. Where holdings are largely confined to common stocks, with capital appreciation the main objective, even more selling than we have generally advocated can be justified in many individual cases. If this is your situation and your inclination, our general recommendation of a 50-50 position should not deter you from raising your reserves to more than 50%.

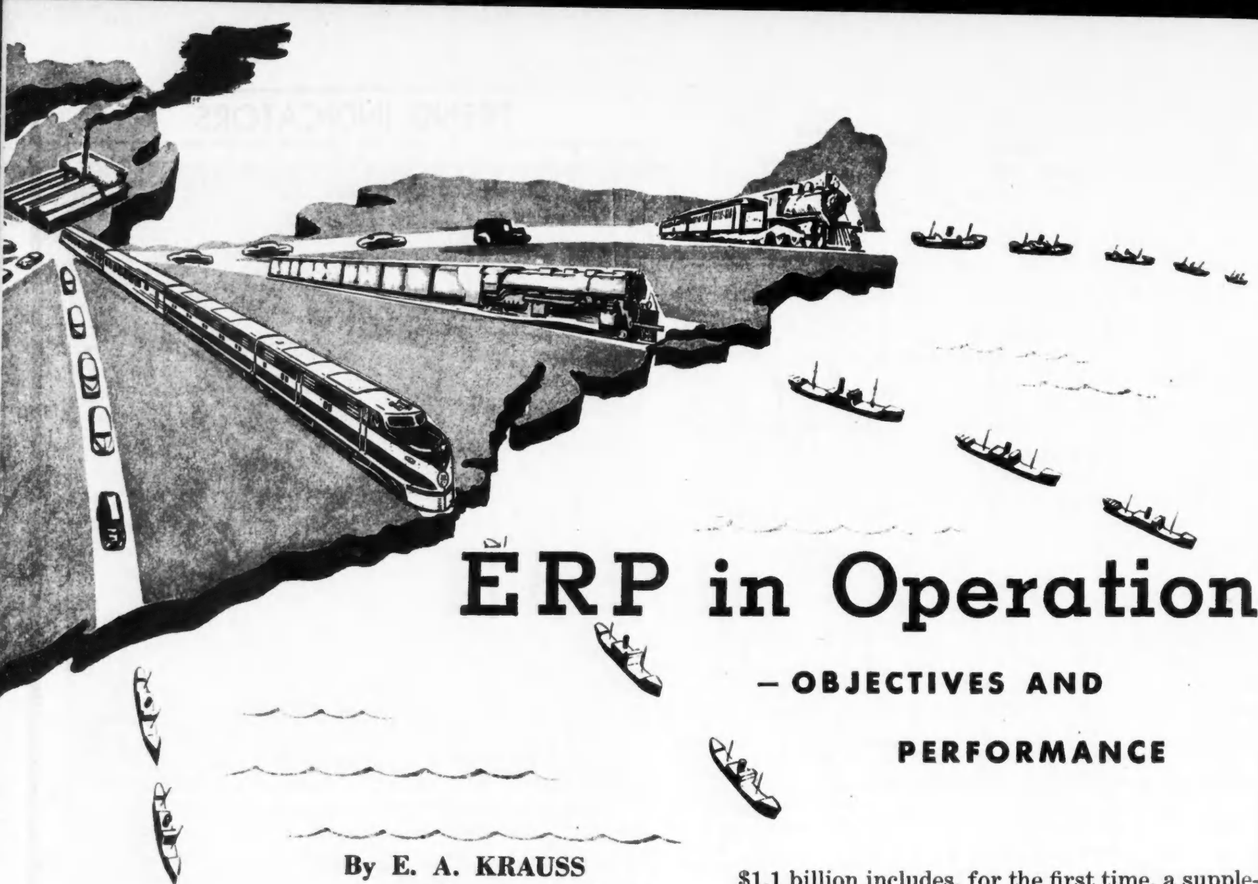


Market Still Relatively High

Compared with all prewar highs, excepting 1929, the market is still at a fairly advanced level. And around 185, as we go to press, the Dow industrials are in the top area of the 1947-1948 range of 163-193. The comparable range for the Magazine of Wall Street's composite index of 312 stocks is rougly 111-149, and this index now stands at 140. In short, if the rally holds a short while, current sales will not be made at importantly depressed prices.

It seems clear by now that booming business and high earnings—with us for a long time—are not sufficient in themselves to induce a sustained market rise. The reasons why this is so are not equally clear. They undoubtedly include the now chronic "foreign uncertainty." They probably include a feeling that each fresh spurt in the inflation spiral takes us that much closer to a bust. They may include a wait-and see attitude on Government's policy under the Dewey Administration, and especially anti-inflation policy if inflation has not begun to blow itself out during or before the forepart of 1949. In market terms, since the market looks ahead, 1949 is not so very far away. It is a pig-in-a-poke year, unlikely to get a blanket vote of confidence at this distance. This should always be borne in mind.

—Monday, July 26.



ERP in Operation

— OBJECTIVES AND PERFORMANCE

By E. A. KRAUSS

After a disappointingly slow start, the European Recovery Program is finally getting into its stride. Not only are allocations of funds and shipments of goods being stepped up, but the Economic Cooperation Administration (ECA) charged with the program's implementation has recently announced a number of steps designed to widen its scope and effectiveness. Whether these will have the desired results is far from assured. ECA is still in a state of confusion both as to policies and administration; and the conflict of viewpoints, European reactions, congressional interference and the difficulty and magnitude of the task undertaken have far from helped matters. Nevertheless progress is now being made though the basic concept of ERP appears to be undergoing considerable change.

Last April, first month of ERP operations, shipments financed by ECA came to a mere $20.5 million. They jumped to $64.4 million in May and since have further risen substantially. Though authorizations were considerably higher during these early months, for various reasons they were not translated into exports. Altogether during the first ERP quarter (April to June), allotments totalled $1.4 billion. But of this, the Marshall Plan countries received only $763 million in grants while they completely shied off loans for which ECA had budgeted $288 million.

For the second quarter (July to September), the pace has been further stepped up. Tentative ECA allotments for the period amount to $1.1 billion but to this must be added the $632 million of first quarter funds left over. Thus actually, ERP countries will have more funds to spend during that period though it is doubtful whether they can be fully expended during the period. The basic second quarter allotment of $1.1 billion includes, for the first time, a supplementary allotment of $101 million set aside to finance trade between the participating countries themselves. The idea is to make ECA's money do double duty; first in financing the exchange of goods within Europe and later in financing non-ECA purchases in the United States.

The second quarter allotment represents a cut of $500 million from the amount requested by participating ERP countries, made primarily in non-recovery items such as food and rendered possible by the improved European crop outlook. Practically no cuts have been made in capital goods requests and ECA is hoping to swing spending further into this field, switching from mere relief to recovery. So far the trend has been distinctly, and disconcertingly, in the other direction.

How Program Stands

Overall, here is how the spending program now stands: For the fifteen months period ending June 30, 1949, Congress authorized a total of $5.05 billion. Quota allotments through September came to $2.52 billion; a similar amount thus remains to be allocated after September 30. A break-down of second quarter allotment figures is shown in the accompanying table, as well as a break-down between loans and grants in so far as these have been determined. England, France and Italy, in that order, lead in size of basic allotments. As to loans, Iceland and Ireland are the only two participants that will borrow their entire allotments. So far, as against grants totalling $754 million, loan allotments amount to only $174 million.

Up to recent date, authorized shipments came to a total of $815 million. Wheat, mostly from the U. S., accounts for $156 million, and wheat flour shipments to $53 million. Other major items include: meats

$42.9 million; oil and petroleum products $106.7 million; coal $66.5 million; cotton $55 million; copper, zinc and other non-ferrous metals $51.8 million and tobacco $21.7 million. This listing indicates a broad reshuffling of original purchase authorizations. In a number of cases, these were cut, reflecting lower prices, foreign decisions to defer some shipments, or the substitution of certain commodities for those previously requested.

Food vs. Capital Goods

Despite growing emphasis on capital goods exports under ECA, the trend away from foods and expendable goods, heretofore the principal items shipped abroad, will necessarily be slow. One reason is that there is still some question as to exactly what is needed. Some ERP nations found it impossible to screen their requests because of political considerations. Moreover, with the American ECA staff abroad only about one-third complete, the building of a detailed program is a slow process. Thus relatively little in the way of capital goods is likely to be authorized in the immediate months ahead. By the same token, the impact of the program on American industry will be correspondingly delayed.

Special interests are trying hard to influence ECA operations and shipments. There is considerable pressure for maximum exports of farm products, for a ceiling on farm machinery exports and for substantial limitation of badly needed fertilizer shipments. This looks like so much agricultural boondoggling. Europe actually likes to receive less wheat and more feed grains to build up its meat supply. Congressional maneuverings reflect the efforts that are being made to impose on ECA the wishes of our agricultural lobbies. Reactions abroad are inevitable.

Loans Are Hard to Place

While at long last, however, ERP is getting under way, a good many aspects continue to present difficulties. There has, for instance, been no rush for ECA loans. ECA found it far easier to furnish outright grants than to negotiate repayable credits, yet under the law it is required that $1 billion or about 20% of the first year recovery funds be set aside as loans to finance specific recovery projects. Under pressure, the loan program is finally making some headway. The first loan, to Iceland, in the amount of $2.3 million was recently announced; eight others, aggregating $800 million, are reported in process of negotiation, but progress is likely to be slow. Differences center on interest rates (ECA demands 3%) and amortization schedules. Countries like Britain would have the interest rate cut to 2% and repayment schedules extended to 50 years. She would also prefer an escape clause, under which interest payments will be waived in any year in which Britain suffers an unfavorable balance of trade.

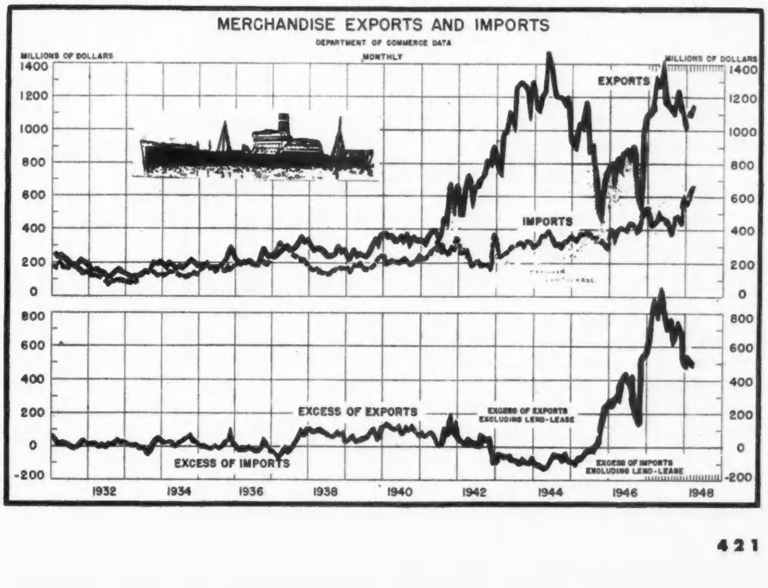
Above all, there has been an understandable reluctance to accept loans as long as grants can be had. The loan program could only be pushed by the alternative: No loans—no grants! Now European nations have been banding together to press for relaxation of loan terms. In this effort they are heartened by recent success of another joint operation which resulted in a far-reaching compromise on various key issues. Thus we have relaxed our requirements for general monetary and currency policy as well as regarding control over ECA supplies, of which more later.

Important changes in ECA policy are not limited to a widening of the program to include loans, to greater emphasis on capital goods, to a shift from initial relief aspects to recovery though achievement of the latter goal particularly is still far away. ECA has also taken steps to spur private American investment in Europe. To that end, the agency is prepared to guarantee convertibility of returns up to 100% of the dollars invested abroad. This is an open invitation to American industry to participate in up to $300 million worth of business earmarked for European reconstruction. No more than $300 million may be guaranteed in the first year, and the guarantee will stand for fourteen years—until April 1962. It is a proposal that has met considerable interest; some think the problem is whether the $300 million limitation will permit consideration of all potential applicants.

Retreat on Key Issues

The difficulties in getting ERP started, and the even greater difficulties in keeping it going in line the principles laid down by Congress were glaringly apparent when it came to the negotiation of bilateral treaties of the ERP countries with the U. S., as required under the ERP law. The ERP countries strenuously objected to having their internal decisions, especially in the field of budget reforms and as to when and how to revalue their currencies, made for them by Washington, or even to countenance pressure in this direction. They balked as such intrusion upon their sovereignty, at our insistence, in return for financial aid, to prescribe for their internal ills, to tell them to what extent to cooperate with each other, and just what to do in the way of reduction of trade barriers.

In the interest of "family peace" and especially to avoid needless friction at a time when western unity is urgently needed, these issues were finally compromised by a retreat from our "extreme" demands; thus



our controls over the ERP countries will be relatively mild. Each country now can put its own house in order as it pleases, when it pleases and at its own pace. The ERP treaties merely point the general course which recovery efforts should take. Thus by and large, what we are giving—that is goods and dollars—is far more specific than what we are getting. Concrete aid is being traded for promises, fulfillment of which is not assured. ERP countries merely agree to do what they can to establish financial stability and increase trade.

Raw Materials for Stockpiling

On one point we have been less yielding—the question of our access to strategic raw materials. ERP countries in their treaties agree to help us get such materials for defense stockpiling at reasonable prices, if necessary by increasing production to the extent required. This clause has been much criticized in Britain but accepted with resignation as the "inevitable price" to be paid for ERP aid.

Our retreat from authority to compel currency devaluation obviously was not only motivated by a desire for harmony but also by recognition that most European countries are not now in a position to have their currencies made freely transferable. Apart from internal political considerations, the revised attitude seems to be that there can be no stable international exchange until western Europe is restored and its deficit in international payments eliminated. This however may take a long time, longer in fact that the full course of the Marshall Plan project.

The war caused a complete break-down of payments and trade within Europe, which the setting aside of relatively modest sums for the financing of intra-European trade (such as the $101 million for the second ERP quarter) won't be able to cure. Hence ECA is working in other directions as well to improve the payments system. Under ERP law, local currency must be set aside by participating countries equal in value to the ECA aid received. Part of this money will pay the expenses of the ECA administration abroad, the balance to be used for boosting production in Europe and elsewhere. It is now suggested that these local currencies deposited in each country against ECA grants be pooled, so that a country short of another's currency could draw its requirements from this pool. Object: To facilitate revival of intra-European trade so vital to Europe's recovery.

Tentative ECA Allotments for July-Sept. Quarter

Country	Basic Allotment	Supplementary Allotment
Austria	$59,000,000	$10,000,000
Denmark	29,000,000	3,000,000
France	221,000,000	30,000,000
Greece	45,000,000	7,000,000
Iceland	800,000	———
Ireland	20,000,000	1,000,000
Italy	144,000,000	4,000,000
Netherlands	105,000,000	23,000,000
Norway	18,000,000	2,000,000
United Kingdom	320,000,000	15,000,000
Bizone Germany	42,000,000	6,000,000
French Zone Germany	14,000,000	———
Totals	$1,017,800,000	$101,000,000

BREAK-DOWN IN LOANS AND GRANTS
(as far as determined)

Country	Loans	Grants
Austria	———	$69,000,000
Denmark	$ 7,500,000	24,500,000
France	35,000,000	216,000,000
Greece	———	52,000,000
Iceland	800,000	———
Ireland	21,000,000	———
Italy	15,000,000	133,000,000
Norway	10,000,000	10,000,000
United Kingdom	85,000,000	250,000,000

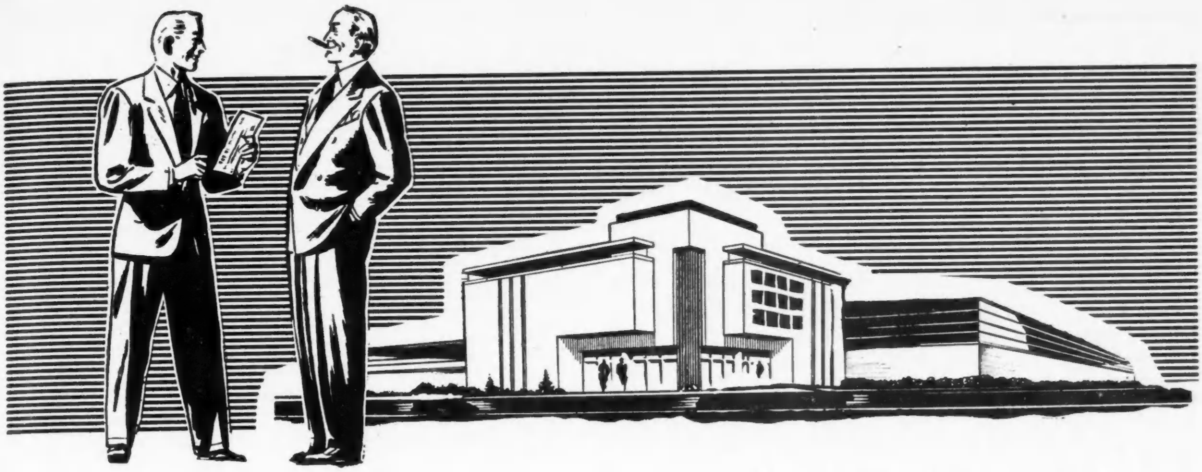
This would tie in with the original Marshall Plan idea that European recovery was to be achieved mainly by the Europeans, that initiative must come from Europe, that the Europeans should work out a cooperative program which the U. S. would support financially. But as indicated in the foregoing, there has been a good deal of departure from this basic concept. For a time at least, the object of recovery has moved into the background, and relief into the foreground. Our urgent task is to counteract any tendency to lean too much on ERP, and not enough on self-help. Relief has been proceeding at an increasing pace but at this writing, there is room for considerable concern over how effective the steps towards recovery will be, especially in view of the compromise on basic issues forced either by circumstances or by European unwillingness to accept interference with "national sovereignty." And in this particular connection, the sharpening of the tension with Russia has not particularly helped matters.

East-West Trade

One of the points at issue is the matter of European East-West trade. While vital to European economic health and recovery, it is hobbled by the political friction with Russia, by the western desire and particularly our own desire not to strengthen Russia's war potential by such interchange. This has created a good deal of confusion. On the one hand, we are constantly reminding the ERP countries of the need of doing their utmost in an effort at trade rehabilitation. On the other hand, these very countries are puzzled what they can ship to Eastern Europe and what not, without incurring our displeasure. It is a question, and an important one, that still needs to be clarified.

Thus the path of ECA is not an easy one, nor can there be any guarantee of success. As yet there is no basis for the widespread belief that ECA alone can assure economic rehabilitation and ultimate prosperity in Europe. Rather it is in the nature of an expensive experiment, perhaps a necessary one, but still an experiment. Its chances for success are obscured by our failure to insist on needed reforms in the monetary and fiscal fields and by the realities of the European political situation that are likely to keep the Continent economically off-balance for a considerable time. It has been said that without political stabilization, there can be no economic recovery. ECA seeks to promote economic recovery first, as a requisite of political stabilization. Perhaps it matters little which comes first, since in the last analysis, both may have to go hand in hand.

For some time to come, however, difficulties are likely to increase rather than lessen, what with the upward momentum of business in Europe noted in previous months now losing force, with industrial production in most coun- (*Please turn to page* 454)



Earnings Trends During the First Half

—WHAT THEY REVEAL FOR THE BALANCE OF 1948

By HENRY L. BLACKBURN

Corporate reports for the first six months of 1948 or for shorter recent intervals have been awaited with intense investor interest. The general reluctance of share prices for quite a while past to anywhere near reflect the boomtime upsurge in corporate earnings has attested to a widespread inclination to "wait and see." To what extent fairly up to date interim reports reveal divergent trends in the making accordingly provides an interesting subject of examination.

Indications are that retail trade this year will reach another new high. Also, with good grain crops now pretty well assured, wage and prices in a third round spiral, and large scale Government orders for ERP and the Military entering the picture, manufacturers generally are raising their sights as to 1948 sales potentials. Interim reports, however, clearly show that demand and supply factors in certain segments of the economy are still far from a uniform balance, with the supply of goods in some directions reaching an ample stage, while in others, scarcity conditions are likely to continue.

Despite all the encouraging elements in the equation, what counts most with investors is the factor of net earnings. It is one thing for managements to achieve larger or even stable volume, but another to overcome mounting operational costs sufficiently to leave per share earnings at a satisfactory level. Many concerns last year and in recent months have accomplished this feat through higher dollar sales as an offset to shrinking profit margins, sometimes the result of higher prices rather than increased unit sales. To judge from past experience, competition eventually will preclude the continuance of such policies; under current unprecedented conditions the day may be quite distant in some industries, but nearer at hand in others.

To appraise the progress and potentials of any given concern in the current economic flux, it is not safe to rely exclusively on the evidence presented by interim reports, or for that matter upon factors generally brightening or clouding the outlook for this or that industrial group. In part this is due to varying managerial efficiency in meeting the test of competitive conditions, and partly because of hidden problems that mere figures fail to reveal. In other words, there always exists varying ability to institute effective cost controls at times when sales are temporarily or basically trending downward. Also, even when volume gains have been achieved, heavy promotional expenses or overhead swollen by expansion programs as yet unproductive may account for temporarily narrowed profit margins. It is only by understanding more of the factors that are influencing individual company reports that genuine trends can be distinguished from transient factors.

Prices and Earnings

Looking to 1949, it goes without saying that security prices will hinge strongly upon earnings trends in coming months which may confirm or refute current estimates of various hue. That peak earnings are a thing of the past for numerous large concerns now seems very probable, though they may continue to be well above prewar levels. On the other hand, the gradual disappearance of a seller's market is bound to make it difficult for many companies to offset high break-even points by maintenance of adequate sales. Earnings of concerns in this latter category may recede rather abruptly before very long.

Finally, there are divisions in the economy favored with long terms prospects of unsatisfied demand. It

Interim Sales and Earnings Reports of Selected Companies

	Net Sales (000 omitted) — Interim Period	1948	1947	Full Year 1947*	Net Per Share — Interim Period	1948	1947	Full Year 1947*	Recent Price
Allied Stores	3 mos. April 30	$95,327	$86,726	$392,199	3 mos. April 30	$1.39	$1.39	$6.20	$36
Automatic Canteen	12 weeks June 5	4,499	4,565	17,891	12 weeks June 5	.39	.34	1.66	15
Avco Mfg.	3 mos. May 31	32,703	25,649	105,704	3 mos. May 31	.21	.18	.96	6
Barker Bros.	6 mos. June 30	15,213	13,346	30,006	6 mos. June 30	2.40	2.32	5.98	27
Beatrice Foods	3 mos. May 31	45,938	42,615	181,715	3 mos. May 31	1,23	1.17	6.39	37
Colt's Mfg.	20 weeks May 23	2,878	2,219	6,240	20 weeks May 23	.55	.10	.76	35
Dana Corp.	3 mos. May 31	31,905	24,862	91,340	3 mos. May 31	1.60	1.39	5.23	28
Deere & Co.	6 mos. April 30	140,060	87,522	212,015	6 mos. April 30	2.52	1.68	3.90	39
Eagle-Picher	6 mos. May 31	35,806	39,991	77,668	6 mos. May 31	2.10	2.47	4.05	22
Elastic Stop Nut	6 mos. May 31	1,509	1,567	2,810	6 mos. May 31	.16	def.23	def.40	7
Eversharp, Inc.	3 mos. May 31	3,926	7,283	22,123	3 mos. May 31	.32	.58	def3.70	9
General Tire & Rubber	6 mos. May 31	46,782	61,717	126,136	6 mos. May 31	2.46	4.06	9.08	27
Grand Union	3 mos. May 29	26,638	23,245	99,818	3 mos. May 29	1.69	1.56	6.87	39
Hayes Mfg.	6 mos. March 31	13,613	11,377	24,457	6 mos. March 31	1.58	.89	1.57	10
Heyden Chemical	5 mos. May 31	10,940	21,981	21,911	5 mos. May 31	1.39	2.01	2.01	25
Hooker Electrochemical	6 mos. May 31	12,133	9,990	20,186	6 mos. May 31	1.80	2.96	2.45	34
International Shoe	6 mos. May 31	115,371	113,730	212,918	6 mos. May 31	2.04	2.42	4.11	43
Kelsey-Hayes Wheel	9 mos. May 31	52,707	47,700	63,124	9 mos. May 31	4.21	4.10	5.35	22
Lakey Foundry & Machine	3 mos. April 30	4,302	3,918	14,868	3 mos. April 30	.66	.71	2.20	8
Loew's, Inc.	40 weeks June 3	140,443	141,486	176,342	40 weeks June 3	.92	2.12	2.05	16
Masonite Corp.	3 mos. May 31	9,729	6,670	25,339	3 mos. May 31	3.08	1.85	7.30	69
Murray Corp. of America	9 mos. May 31	66,466	48,960	64,992	9 mos. May 31	1.55	2.03	2.85	15
Rice-Stix Dry Goods	6 mos. May 31	27,536	28,126	56,485	6 mos. May 31	4.92	5.10	9.98	29
Shamrock Oil & Gas	6 mos. May 31	8,919	4,552	12,079	6 mos. May 31	2.11	.92	2.14	34
Standard Oil of Kentucky	6 mos. June 30	100,911	73,416	155,418	6 mos. June 30	2.50	1.71	3.63	29
Stevens, J. P.	6 mos. May 1	137,715	109,190	224,272	6 mos. May 1	4.37	4.33	8.24	33
Superior Oil of Calif.	9 mos. May 31	39,923	25,438	34,242	9 mos. May 31	31.91	10.55	11.51	230
Wesson Oil & Snowdrift	3 mos. May 29	57,728	49,662	193,970	3 mos. May 29	12.58	2.92	23.15	63
Wilson Jones	3 mos. May 31	3,051	2,832	10,342	3 mos. May 31	.91	.95	3.40	16
Woodall Industries	9 mos. May 31	14,028	13,688	18,548	9 mos. May 31	1.90	2.76	3.64	12

*—Or 1946-47 or 1947-48 fiscal year.

is in these areas that major expansion programs are now under way. Upon completion of some of these large scale projects, it is rational to expect new sales records and rising earnings, and that when capital needs have been substantially satisfied, a larger share of earnings could be distributed to shareholders than the meager 35% allotted by manufacturers as a whole in 1947. In prewar the average percentage was nearer 65%. Altogether, selectivity for either dividend stability or medium term income improvement must now be based upon developments not always easy to ascertain, except by careful study of all the factors involved.

Varying Earnings Experience

In the accompanying tabulation we have listed the latest interim earnings reports and sales records of 30 well-known corporations. In addition we show interim earnings of 20 concerns, though figures relating to volume are not available as yet. These statistics reveal comparable net earnings for the similar period a year earlier, thus providing clues to trends. The concerns listed represent a wide variety of industries, their individual showings often reflecting special conditions characteristic of their special fields, though not necessarily so. What lends added interest to this statistical exhibit is the varied relationship of net earnings to sales in many instances, sometimes indicating narrowed profit margins on increasing turnover, though at no expense to net earnings. Then again, there are a number of cases where lower sales have accounted for a downtrend in net, or where good cost controls have brought better results than might have been expected when volume declined.

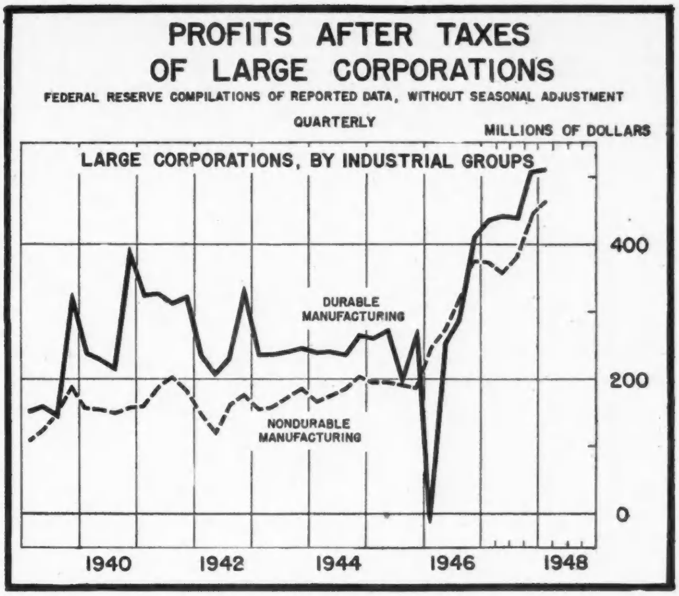
Allied Stores

Allied Stores presents a situation where an 8% gain in volume for the April fiscal quarter only served to maintain per share net earnings on an exactly even keel compared with the same period in 1947. This reflects higher operating costs and policies to keep prices down wherever possible. Since this efficiently managed department store chain has now weeded out stocks of unwanted merchandise, its inventories are well balanced and net earnings could trend upward moderately in the near term. The management is showing confidence in the outlook by modernizing its stores on a large scale, having borrowed $25 million on low rate term notes to provide more working capital. Prospects of continued heavy buying by consumers seem to have warranted these constructive steps and promise well for future results.

During six months ended June 30, 1948, sales of Barker Brothers, a leading California distributor of home furnishings and hotel equipment, rose more than $2 million over the level established in the first half of 1947. Demand for the companys' products is keen and has permitted satisfactory prices, with the result that net earnings per share improved somewhat to $2.40 against $2.32 in the relative 1947 period.

Profit margins of food processors generally have been squeezed by higher operating costs despite vol-

ume gains, mainly due to higher prices. During the fiscal year ended February 29, 1948, for example, sales of Beatrice Foods rose about 12% but per share net dipped to $6.39 compared with $10.03 in the previous year. In the quarter ended May 31, 1948, though, we find sales rising about 9% but net earnings per share up to $1.23 against $1.17, or by 5%. This shows that between efficient management and somewhat higher prices, the company's net earnings and volume relationship have been restored to a more desirable ratio. In other words, the downtrend in net last year has recently been reversed.



Deere & Company

Deere & Company, second ranking manufacturer of farm equipment, reports record sales for the six months period ended April 30, 1948, and though volume of $212 million for full fiscal 1947 represented a previous peak, it looks as though 1948 might push sales up by about 30%. The company's ratio of income to sales in 1947 was closely comparable to that of 1946 and continued nearly in line in the six months interval cited. During this period net per share rose to $2.52 compared with $1.68 in the similar 1947 period. Due to the uptrend in current sales, it seems likely that net may exceed $5 per share for the fiscal year ending October 31, 1948. Furthermore, a sizable expansion and modernization program now partly completed may swell sales still further, with consequent benefits to net earnings. For several years to come, this concern should easily sell everything it can produce.

With an insistent demand for lead and zinc and with prices for these essential metals exceptionally firm, it might seem surprising that sales and net earnings of Eagle-Picher Company showed a declining tendency during the six months ended May 31, 1948. Volume of $35.8 million compared with $39.9 million and per share earnings of $2.10 with $2.47 in the comparable periods of 1948 and the year before. As it happens, though, this concern produces hardly more than 25% of its lead and zinc requirements, and has simply found it impossible to buy enough on the outside to fill orders. Consequently, the downturn in sales and earnings can scarcely be defined as a trend in the usual sense. Then, as for net earnings, inventory profits last year were abnormally large and the earnings figures are distorted by deductions of $2.6 million for reserves against inventories before reported net earnings of $2.19 million in the 1947 period. Until supplies of primary and secondary metals become more plentiful, net earnings of Eagle-Picher may not improve substantially, but they should prove fairly stable at around the recent level.

Eversharp

That an approximate 40% decline in sales in the March quarter compared with a year earlier did not land Evershap, Inc. in the red attests to considerable managerial ability. Net per share of this concern for the period dropped to 32 cents compared with 58 cents in the corresponding periods. Eversharp's venture in the field of ball-point pens after the war was a costly experiment, but its later acquisition of Schick Injector razor apparently saved the day. Sales of this razor and its replacement blades have been eminently satisfactory and seemingly have created a brighter vista for their producer. This concern also is well entrenched with the pen and pencil trade, so that sales and earnings may improve as new models are brought out. Meanwhile, only a stock dividend was paid in the first quarter and since then the directors have taken no further action.

The Tire and Rubber Industry

In the rubber industry, production caught up with deferred demand last (Please turn to page 460)

Interim Earnings Reports of Selected Companies

	Interim Period	1948	1947	Full Year 1947*	Recent Price
Caterpillar Tractor	5 mos. May 31	$ .53	$1.44	$5.29	$61
Colonial Mills	3 mos. May 31	2.80	2.21	8.97	24
Dresser Industries	3 mos. April 30	1.56	.88	3.85	30
Firestone Tire & Rubber	6 mos. April 30	6.04	7.07	13.46	51
Gleaner Harvester	3 mos. June 30	3.86	2.05	5.21	32
Industrial Rayon	6 mos. June 30	3.84	4.02	8.86	50
Mueller Brass	3 mos. May 31	.77	1.22	4.20	21
Myers (F. E.) & Bro.	3 mos. April 30	3.08	1.71	5.62	54
New York Air Brake	6 mos. June 30	3.07	3.03	5.37	54
Republic Pictures	6 mos. April 26	.02	.25	.09	4
Schenley Distillers	9 mos. May 31	6.80	7.62	7.46	32
Sunray Oil	6 mos. June 30	1.50	.94	1.81	14
Transue & Williams Steel Forg.	3 mos. June 30	.60	.56	2.80	19
Underwood Corp.	6 mos. June 30	3.44	2.95	8.31	58
United Fruit	6 mos. July 3	3.07	3.03	5.37	54
Universal Pictures	6 mos. May 1	.12	2.07	3.11	12
Walker (Hiram)-G. & W.	9 mos. May 31	7.57	5.37	6.54	25
Wayne Pump	3 mos. May 31	.66	1.85	5.06	23
Western Union Telegraph	5 mos. May 31	def.74	4.27	7.43	22
Woodward Iron	3 mos. June 30	1.43	1.33	6.11	37

*—or 1946-47 or 1947-48 fiscal year.

The Case Against Subsidies

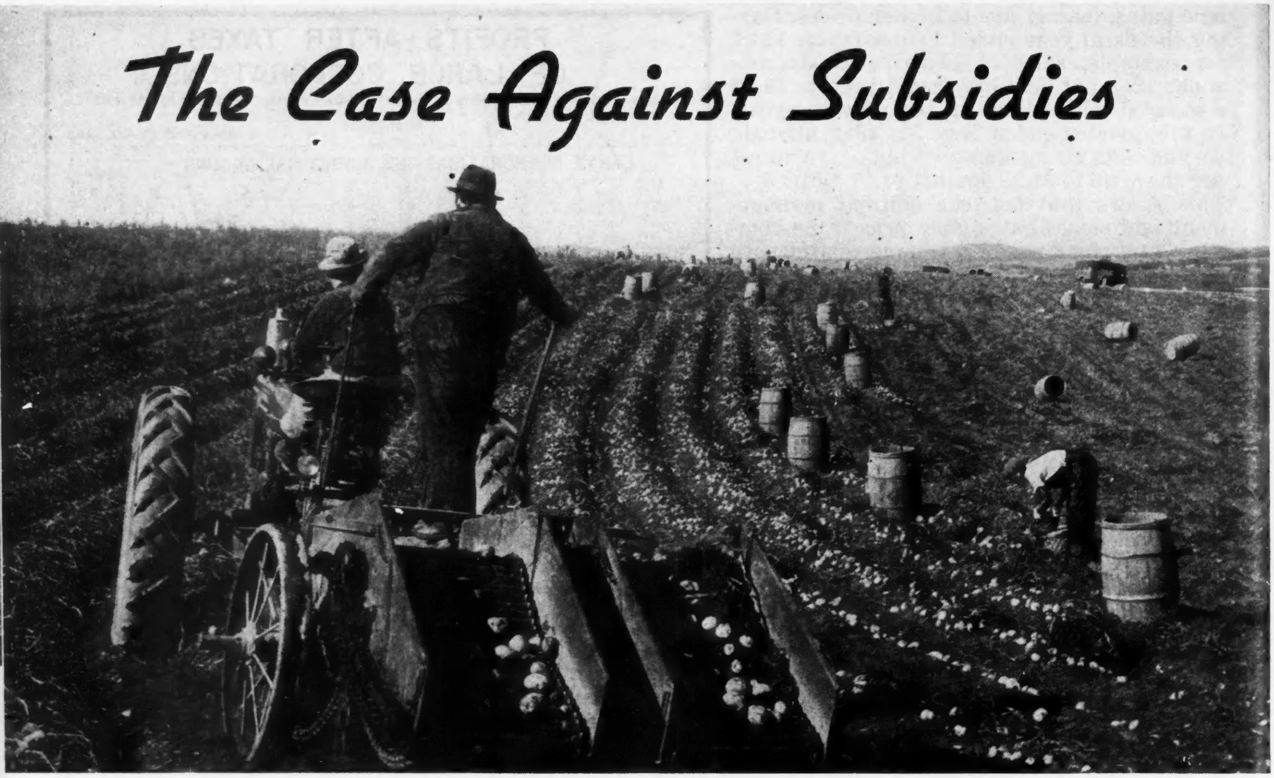


Photo by Devaney

By FRANK R. WALTERS

Throughout history, the economic unsoundness of subsidation, and especially of prolonged subsidation, has been clearly and amply proved. Seldom if ever do subsidies cure the basic evils they are supposed to overcome. Frequently they aggravate them, usually they perpetuate them. Almost always, by considering only the immediate benefits accruing to special groups, they ignore the long run adverse effects on the economy as a whole, the burden on those who have to pay the bill. Special interests, as the history of tariffs reminds us, can think of the most ingenious reasons why they should be the object of governmental solicitude, and more often than not they have been able to get what they want despite the economic absurdity of their claims.

Subsidies of course are an old story, both here and abroad. Nor are they, in our country, the invention of any particular group or party. The game has been played on quite a non-partisan basis and by widely diversified interests. But with the advent of the New Deal, the subsidy idea was greatly extended not only because it was a natural concomitant to state planning but importantly also because of the political potency of subsidy benefits.

Most if not all subsidies are heavily fraught with politics; economic blocs and pressure groups have demonstrated their ability to secure Federal appropriations in proportion to their voting strength. When they combined their efforts in "log-rolling" in Congress, they have often won sweeping concessions. Witness the attainments of the farm and the silver blocs in recent decades, of export minded interests seeking to stimulate trade through export subsidies and foreign loans, the gains of the numerous other pressure groups that in the past have successfully fed at the Federal trough at the taxpayer's expense.

Perhaps the most glaring example has been our Federal farm policy, an expensive undertaking that on balance solved nothing. It was bailed out by the war but recent developments show that little has been learned from the lessons of the past. We are well on the way to repeat the errors inherent in these impractical and unsound policies, to indulge again in the economic waste that characterized our efforts to "stabilize" agriculture and insure its prosperity. At this juncture, however, the risks involved are greater than ever. They include intensification of postwar inflation and all this implies, as well as the return to budgetary deficits at a time when the country is reeling under the weight of a colossal government debt and an already dangerously extended budget.

Absurdity of Present-Day Farm Price Support

It seems incredible that our Government would actually want to support farm prices at a time when they are at fantastic heights, when staggering food costs are the bane of every consumer. Yet this is exactly what's being done. Congressional extension of farm price supports at 90% of parity through 1949 crops is just about blasting any hope of a really worthwhile reduction of our soaring food budgets. It robs the consumer of the first real "break" he might otherwise have gotten in the way of lower living costs. By keeping food costs high and possibly rising, our high price support policy

creates the basis for new wage demands which in turn may further feed inflationary pressures. Based on an outmoded "parity" formula, the dangers in a program of price supports at too high levels are obvious and recognized by virtually every agricultural economist. But these dangers have been blithly ignored. Support prices in 1948 are even higher than in 1947, and will still be higher in 1949 if prices paid by farmers keep rising, as they probably will.

Political Considerations

The oustanding fact is that the powerful farm bloc, striving for permanent price floors higher than in prewar, has achieved its immediate goal. In an election year this was relatively simple; none of the two major parties dared alienate the farm vote by pointing out the necessity of a lower cushion, of relieving the pressure on consumers by allowing farm prices to find their own level as dictated by demand and supply, or at any rate undertake less generous price protection for agricultural products at a time when the crying need is lower food costs.

By granting high support levels, the Government bolsters the cost of food and clothing, and puts a floor under raw material costs of many manufacturers. It confronts the Treasury, that is the taxpayer, with the possibility of heavy financial commitments .which in the event of sharply declining prices could run into billions. Such a threat is quite real. With food needs abroad lessening and with bumper crops in prospect at home, heavy farm surpluses may eventuate. As prices come down, support levels come into operation, and the Government will hold the bag. Even now, with the wheat harvest in full swing, huge quantities are going under the Government loan at $2 a bushel. The farmer knows that he cannot lose. If the price declines further, he keeps the loan money and the Government gets the wheat. If the price goes up, the farmer can sell his wheat and the Government has a chance to get their money back.

Potatoes and Eggs

The absurdity of our present support program is aptly illustrated by what's going on in the potato and egg markets. Both commodities sell at outrageous retail prices, as every housewife can testify. Here is the reason: The Department of Agriculture has so far this year spent some $16 millions to keep the price of potatoes up. It has bought some nine million bushels surplus potatoes that couldn't be marketed above the support level. Farmers got an average of $1.50 a bushel for best quality. The Government in turn is selling a lot to industrial alcohol plants at about 21¢ a bushel, and more is going as livestock feed at a penny a pound. The housewife in metropolitan areas continues to pay seven cents a pound at a time when potatoes should be seasonably cheap.

Similarly in eggs. The Government keeps buying eggs on the farm at 35¢ a dozen (the consumer pays anywhere from 75¢ to 90¢) to prevent a decline in prices, and has purchased some 14 million pounds of frozen eggs so far this year to support the market, that is in an effort to maintain a fictitious value.

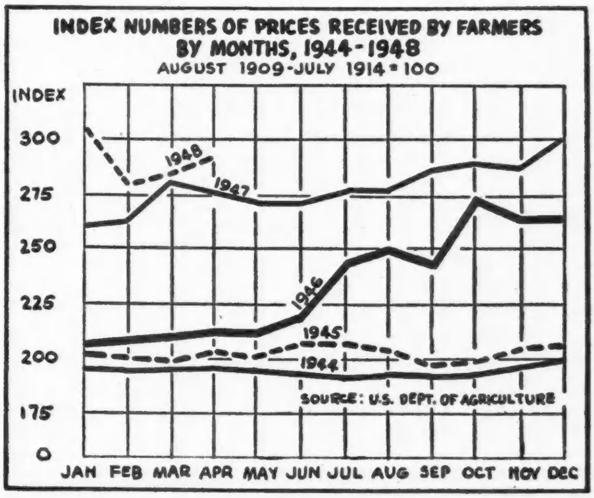
What, in the end, will happen to the surpluses piling up at the taxpayer's expense? By giving crops excessively high price crutches, we are virtually assuring future gluts, while these very price supports are putting a sturdy prop under the high cost of eating.

As indicated above, the rush of farmers to put cereal crops under Government loans rather than sell at declining prices is already on. As the harvest advances, the rush will soon become a flood. Some wheat people think that as much as 80% of the new crop may go under Government protection, a record high. Certainly it will be considerably more than half. And loans paid by the Government may come as high as $500 million, on wheat alone. With an bumper corn crop in the offing, corn prices, too, are sliding fast towards support levels. And cotton prices are not far from the point where the taxpayer will give support. Far from giving him a break, lower farm prices spell merely the assumption of new tax burdens.

Prosperous Agriculture

All this at a time when the farmer is least in need of such largesse. He has enjoyed many years of excellent crops and record income, and even at lower prices, demand is likely to continue such as to keep him quite prosperous compared with prewar. Farm cash income from sales of produce in the first five months of 1948 approximated $10.3 billion compared with $10 billion last year, and a $25 billion year is virtually assured. Prices farmers are receiving for their products have advanced more since the war than the prices of the goods they buy. While the gap has been narrowing, it still exists. In May, the index of prices received by farmers was 170% over the 1935-39 average, while the index of prices farmers pay was up only 112%. In general, farmers can buy with about one-fourth fewer units (bushels, pounds, etc.) of farm produce the same goods than they would have required in 1935-39. He still is far better off than the city consumer; the latter, nevertheless, is being called upon to underwrite his continued prosperity.

Thus if the absurd corollaries of such an undertaking have been manifest in the past, they are even more absurd now. The farmer has had little need of protection since the war ended, and he is better able to give it up (*Please turn to page* 453)



NO EARLY STEEL CONTROLS

By E. K. T.

DRAFTS of the original platform of the democratic party were by no means scarce in Washington a full week before the convention met at Philadelphia. As always happens, the framework had been built in White House and national committee consultations, then dressed up by party publicists. The difficulty was, however, that the draft wasn't to be accepted. Originally, it was planned to try wooing the south by soft-pedaling civil rights, double-talking on state rights. The strategy changed when the southerners remained adamant; word went out from President Truman to "shoot the works."

WASHINGTON SEES:

President Truman's acceptance speech at Philadelphia revealed the basis of his supreme confidence in the outcome of the November election. It was his "secret weapon": a special session of congress.

The announcement came as a complete surprise to news correspondents covering the White House daily. In fact they claim they were led to believe there would be no special call, and that for the purpose of adding the importance that surprise lends to statements from the Excutive Mansion.

Since the Truman "non-political" trip westward, it has been clear that the GOP-controlled 80th Congress was to be the target and the issue of the democratic campaign. It has proved a good one to date; has built fires of resentment under such important voting groups as organized labor, war veterans, and civil rights advocates. But more than three months will elapse before Election Day and the issue might wear thin by that time if no shot in the arm were administered. The special session will do the job by dramatizing the fact that congress left a long list of unfinished business when it hurriedly left Washington to take up the job of politics.

Now, President Truman believes, it is up to congress to do one of two things, either of which will count in his favor: 1. Enact what is fundamentally his program, in which event he can claim credit. 2. Fail to enact the program and prove how accurate is the label "do nothing congress."

TAX COLLECTION shift from the federal government to the states was noted in examination of the levies made on the liquor industries last year. The Bureau of Internal Revenue took in 13.84 per cent less money from that source than in the record breaking year of 1946. But the states and cities collected about 30 per cent more. The federal government did not reduce its demands upon the industry; it was a case of state and local units increasing theirs. The National Conference of Governors this year asked Washington to abandon that field of income. Congress will balk, however, and has the last word.

BUILDING UP is a strong drive to force congress to enact Universal Military Training early in the next session. Veterans groups are in the forefront and, of course, the military arms are bending every effort to that end. Public opinion polls favoring UMT are being cited and the draft act is being depicted as notice to foreign countries that the United States "intends to stay strong for 21 months." Most important is the fact that both President Truman and Governor Dewey are on record for UMT now.

RECORD BREAKING crops of wheat and corn are in prospect and the consequences are flowing in many directions. It's good news for a hungry world but a problem for the government, which probably must buy millions of bushels to keep prices from dropping below support levels. It means more corn for livestock feeding, and forecasts longer fattening before cattle and hogs are sent to market. That could cause, temporarily, a further drop in meat supplies, but eventually heavier tonnage and lower prices as well as levelling off of "cost-of-living" wage fluctuations.

As We Go To Press

Better barometer to reflect the rise or fall of political party popularity than the public and private polls relied upon by the average citiben, is the tally sheet of campaign contributions kept by the party treasurers. It is making the democrats currently unhappy and is one more source of cheer for the republicans.

This doesn't mean that either party will have great difficulty raising money. No election ever was lost solely for want of funds. There always are wealthy partisans who are willing to chance parlaying a heavy contribution into appointment to a position of prestige and trust, say, an Ambassadorship. It would be surprising, too, to read in parallel columns the names of the donors to each party; many play both sides of the fence.

But...the professional politicians prefer a large number of small contributions to fewer and larger gifts. They know the donor will pull for, work for, the entry on which his money has een placed, and the participation by the many rather than the few indicates that enthusiasm for the ticket is diffused, not concentrated. This year, the republicans are getting both the large and the small donations, while the democrats are hearing chiefly from the fewer, heavier givers.

Good news for businessmen and industrialists who plan to go heavily into international trade as it becomes revitalized by the European relief program is the fact that feuding and jealousies between the State and Commerce Departments have finally been resolved. At least each has been told with finality where its jurisdiction ends.

Commerce officials have accused State of grabbing and duplicating some of the former's functions in the foreign economic field. State has delivered the crushing retort that its actions have been made necessary by Commerce failure to do the job. With no peace in sight and confusion facing businessmen coming here for guidance, the battle finally landed in the office of the Budget Bureau for decision.

Department of Commerce came out on top, but not without some hard knuckle-rapping first. State will merge its international resources division with its petroleum section, will not assign foreign specialists to commodity work, and will consult with Commerce officials in the planning stages of all commercial treaties.

Importantly, State will withdraw from the field of research studies of financial and economic development, and henceforth Commerce will be the contact with private industry to collect, collate and release all such data. No longer will it be necessary for representatives of business to shuttle between State and Commerce offices to complete files of needed international trade information. It will all come under Commerce Department from this point out.

Settlement of the 14-months old rail wage controversy has accentuated, rather than softened, the demand for a complete revision of the Railway Labor Act. After many years of successful operation, the statute has proved itself incapable for the third time within five years, to avert strikes. The power of the President to seize the roads is statutorily running out. Whether to make permanent that "emergency" authority, or to overhaul the Railway Labor Act, is the problem to be presented the next Congress. It will choose the latter.

Weakness of the present law is found in the fact that the Board of Mediation created by it cannot require that disputes be submitted to the mediators, that it merely postpones strikes and doesn't outlaw them (as many congressmen believe is essential when dealing with an instrument of such national importance as railroads), and it leaves the government helpless. President Truman acted, of course, under a 1914 law which depends for its force on the existence of a "state of war."

Under consideration, but certain to be soft-pedaled during the election campaign, is a change in the basic statute which would authorize the Secretary of Labor to appoint an arbitrator to handle any major labor-management dispute, and to make his ruling final and binding upon both sides. The strike would be outlawed in the interest of public health, safety, and convenience. And, posibly, a government-seizure rule will be written in, although it's hardly likely one would be needed under such a setup.

Treasury experts, assaying current conditions and the outlook, are ready to report that the federal government will go into the red before the end of this fiscal year. Expenditures for the year are headed to the 42-billion dollar mark. Anticipated revenues were 44 billion dollars, but the 4-billion dollar tax cut (at least President Truman will claim) will reduce income to a point 2 billion dollars short of disbursements.

There will be a hard political fight on the issue raised by the Treasury forecast. It's all in the bookkeeping. Congress ordered that 3 billion dollars to be spent for foreign aid be charged to the 1947 fiscal year (ended June 30, 1948). The money wasn't spent in that fiscal year and won't be charged against the year in which it actually is disbursed. That made last year's surplus about 5 billion dollars, instead of the 8 billions which the books really show. And the transfer can make the 1948 fiscal year's calculated deficit give way to a surplus. It's not done with mirrors; simply with pencils!

In Washington, interest in the November election focuses on the national ticket, but democratic national headquarters is finding that local campaigns are drawing attention to the point that formation of a strong organization is being impeded. Invitations to head up regional, state and local groups are being by-passed. Word is coming to the Capital that party stalwarts, available in the past, intend to concentrate on local affairs.

Not since 1928, has the party faced the possibility of losing so many southern states. The GOP confidently expects to carry Virginia. Reason is that the northern districts have mushroomed in population during the war and registrations show a trend to the republicans. The vast industrialization of the South in recent years has also tended to bring political thinking more in line with Republican traditions. The gradual infiltration of skilled personnel from the North has had its natural influences in altering Dixie loyalty to the rigid political philosophy so long a fetish below the Line. In other words, the nation at last may be on the way to a more truly composite political base.

Tennessee offers a real battleground. Boss Ed Crump is being challenged by popular Rep. Estes Kefauver whose followers say they either will place their man in the senate or a republican will walk in. Their opposition will run B. Carroll Reece, who was no great shakes as republican national committee chairman, but is popular in his state. He was elected to the house in Roosevelt landslides and was "favorite son" for the Presidential nomination. Involved in the fights in these and other states are the "statehouse jobs." And they're considered the paramount prizes this year.

Rebuilding of JAPANESE Trade

—UNDER U.S. OCCUPATION

Photos by Press Assoc.

Japan's silk exports, revived since the war's end, help pay the cost of badly needed imports of food and raw materials

By V. L. HOROTH

Early in July an important step was taken by the office of the Supreme Commander of Allied Powers (SCAP) with a view to stabilizing Japan's currency and rebuilding her foreign trade. The old military conversion rate of 50 yen to one dollar was changed to 270 yen to one dollar. The new rate is what the black market rate for the dollar used to be in Tokyo, and quite realistic insofar as the purchasing power of the yen is concerned. It is said that if the yen should be stabilized at around the new military conversion rate, some 90 per cent of Japanese exporters could profitably ship goods abroad.

Why, all of a sudden, is so much importance placed on the stabilization of the yen? The answer is simple. Without currency stabilization it would be difficult to bring about the expansion of Japanese production and the restoration of Japanese foreign trade. And without these two, expanded production and a much larger foreign trade, there cannot be achieved the economic recovery of Japan which after three years "has become a primary objective of the occupation."

These are the concluding words of the report recently released by a Committee headed by Percy H. Johnston, Chairman of the Chemical Bank and Trust Company, which went to Japan a few months ago to inquire into the country's economic problems at the invitation of the Secretary of the Army. And the Committee adds: "The American Government in the national interest should support a reasonable recovery program." Incidentally, this has been General MacArthur's opinion for some time.

There are a number of reasons why Japan should become "a self-supporting economy with a reasonable standard of living." For one, Japan cannot remain a constant drain on the United States Treasury. It is estimated that in 1947, the propping up of the Japanese economic structure cost us around $400 million, and this year the amount will probably be nearly as large. Traditionally Japan earned her keep by purchasing raw materials abroad, processing them into finished goods, and then exporting a major part in payment for certain essential foodstuffs and such raw materials as petroleum, for example. The objective is to restore this circle.

Under military occupation, Japan's economic life has been strictly controlled and supervised

Political Aspects

Another reason is political. The prospects of rebuilding China into an industrial power in the Far East which would check the expansion of the Soviet-communist power are growing increasingly dim. On the other hand a prosperous Japan, it is argued, would not only be "safe" as far as communism goes, but would be an effective buffer to Russian expansion. Finally, Japanese manufactures are needed in the Far East and southeastern Asia; in view of the natural aptitude of her people, Japan cannot be permanently kept from playing a part in the economic development of the Eastern World as a whole.

Commenting on the turn-about in Wash-

ington's thinking about Japan, Dr. Jerome B. Cohen, a noted writer on Japanese problems, stated recently in the Far Eastern Eurvey (June 23, 1948): "Events have indicated that the proposed solution is to give Japanese business its head; to reopen trade fully, to make Japan the workshop of the Orient; to decelerate the decartelization process; to halt the purge of business leaders; to stimulate foreign capital investment; to reopen the stock market; to reduce corporate taxes; to eliminate reparations largely; to rebuild the Japanese merchant marine; to let Japanese merchants actively seek the markets abroad which SCAP's foreign trade functionaries could not generate successfully."

Reform Phase Ended

In other words, the reform phase of the Japanese occupation which had laid stress on demilitarization, democratization, the dissolution of the family holding companies and banks (Zaibatsu), and land-reform legislation is about coming to an end. Not all the reforms have been carried out fully, and only time will tell whether they were necessary, desirable, or successful.

If Japan is to earn sufficient foreign exchange to make herself self-supporting, production must be increased first. At the present time, manufacturing industries are operating at a very low level—less than 25 per cent of the 1937 average. Agricultural production takes care of only about 80 per cent of the country's needs, and with the fleet reduced and unable to fish in many waters, fishing, the other main source of food in Japan, is only half of what it used to be.

In the opinion of the Johnston Committee there are three major obstacles to the recovery of production in Japan: (1) inflation, (2) uncertainty in respect to the conduct of business enterprise, and (3) low productivity of workers as well as of industrial enterprises.

As elsewhere, inflation in Japan has been due to "too much money chasing too few goods". As will be seen from the accompanying table, paper money outstanding rose from about 6 billion yen in 1941 to 55 billion at the end of the war, and to nearly 220 billion by the end of 1947. Since then, paper as well as deposit money has practically ceased to expand, largely due to a sharp increase in tax collections (in no small degree the credit for this goes to the occupation authorities which are supervising the collections). In view of the great reconstruction task facing the country, the balancing of the budget is out of question for some time to come. What Japan needs at this stage more than anything else is to increase the supply of consumer goods. That would stop the flight into goods, which are getting more and more scarce, and restore confidence in the currency.

The uncertainty in regard to doing business in Japan derives from two sources. One is the threat of removal of equipment for reparations. Owners and directors fear that their property may be taken away from them, and hence do not exert themselves to bring it into full production. On this point the Johnston Committee observes that it is imperative that a decision be reached promptly, and then it adds: "Plants that are needed in bringing about the recovery of Japan should be retained and only excess capacity removed. Otherwise the United States, which is now extending relief to Japan, would in reality be paying the reparation bill." Recommended removals were reduced sharply. They are about one-fourth as large as suggested in the Pauley Report (Spring 1946) and less than half what the Overseas Consultant's Report recommended (February 1948).

The Breaking of Monopolies

Another element of uncertainty derives from the changes being effected in the control of Japanese industry—the breaking up of the great private monopolistic groups (Zaibatsu) which at times could and sometimes did dominate the Japanese Government and repress competition. Here again, the Johnston Committee recommends a complete departure from the earlier policies. Its advice is that "decision should be reached quickly," that "deconcentration plans should not adversely effect production" and that "care must also be taken that the breaking up of the Zaibatsu monopolies (Mitsui, Mitsubishi, and other concerns) does not lead to the growth of government monopolies."

The low productivity in various branches of industry has been due partly to inadequate food, housing, and clothing, and partly to worn out machinery and defective tools. Before the war one of the greatest economic assets of Japan was cheap, efficient labor. With low productivity, this labor is no longer cheap. If Japan is to recapture a part of her prewar foreign trade, she will have to put a premium on efficiency. She will have to reorganize production, modernize factories, increase investment per worker, etc. Some modernization will be impossible without participation of outside help. For this reason the Johnston Committee stresses that the obstacles to foreign private investments be

Japan: Money and Prices

Years	Outstanding Currency (a) (in billion yen)	Deposit Money (b) (in billion yen)	Stock Prices Jan. '37 = 100	Retail Prices 1937 = 100	Wholesale Prices 1937 = 100	Black Market Prices Nov. '45 = 100
1937	2.3	12.4	95	100	100	....
1939	3.7	20.0	97	128	116	....
1941	6.0	29.2	96	151	139	....
1943	10.3	43.2	108	170	158	....
1944	17.7	61.1	103	194	176	....
1945	55.4	102.3	102	291	226	....
1946	93.4	124.7	97	1,570	1,070	....
1947						
May	115.7	130.0	91	2,700	1,620	....
July	136.3	137.5	118	3,260	2,230	378
Sept.	156.4	164.3	101	5,650	4,160	395
Dec.	219.1	208.9	98	7,630	5,300	449
1948						
Jan.	218.0	212.0	127	8,000	5,470	497
Feb.	215.3	212.9	215	8,290	5,560	524
Mar.	218.8	....	235	....	....	539
Apr.	220.4	....	....	....	....	....
May	219.9	....	....	....	....	....

(a)—Notes excluding holdings of the central bank.

(b)—Total deposits including savings, interbank and government deposits.

removed and that the Japanese tax structure be remodeled "to permit the earning and payment of reasonable profits."

To bring about an increased production of goods, the Japanese Government recently announced a five-year economic recovery plan (1948-1952). The stress is put on increasing productivity and a better utilization of domestic resources (also recommended by the Johnston Committee). The output of chemical and machinery industries, in particular, is to be boosted. To carry out the plan, foreign credits of some $1,630 million are estimated to be needed during the next five years. The bulk of the money represents the cost of initial foreign raw materials, for without these materials there cannot be an increase in production; without increased production there cannot be increased exports, and without increased exports, Japan cannot hope to pay her way and maintain a decent standard of living.

Japan: Business Indexes

Monthly Average	Industrial Production 1937 = 100	Mining 1937 = 100	Car-Loadings 1941 = 100	Electricity Billion kwhs	Steel 000 tons	Cement 000 tons	Cotton Cloth million sq. meters
1941	123	121	101	2.79	570	486	93
1942	117	123	115	2.76	587	363	24
1943	107	131	118	2.86	652	314	76
1944	91	117	81	2.72	493	247	13
1945	36	51	64	1.67	89	98	4
1946	16	46	72	2.35	46	77	17
1947							
Mar.	20	61	70	2.43	60	112	43
June	22	57	77	2.82	86	100	53
Sept.	22	62	75	2.31	88	105	46
Dec.	21	75	67	2.13	87	141	41
1948							
Jan.	20	72	76	2.18	80	103	47
Feb.	22	71	78	2.18	100	88	55
Mar.	24	74	73	2.54	113	132	60
April	25	67	.....	2.80	119	169	64

Realizing how important for Japan "the imported raw material-finished goods exports circle is," the Johnston Committee went on record that "to sustain a reasonable standard of life" Japanese exports will have to be increased eight to nine times from the 1947 level of about $173 million (to about $1,600 million at current prices) and that imports which in 1947 were $526 million, must be at least three times as high. To accomplish such an expansion, the Committee pointed out, Japanese merchants must be allowed to go abroad, the Japanese merchant marine must be rebuilt and Japan must not only be allowed to export textiles and consumer goods (as the previous "Reports" recommended), but also machinery and metal products, chemicals, rubber manufactures, etc. And it added: "It is important to the Japanese (*and to the American taxpayer*) that we use our influence to overcome the understandable trade discriminations which *are practiced against Japan,* especially in markets in which they heretofore enjoyed large trade. In the judgment of the Committee, the countries involved are impairing their own well-being by refusing to trade with Japan and are retarding the reactivation of a potentionally valuable economic asset for the benefit of all Asiatic countries."

Existing Trade Possibilities

There is no doubt that the nearby Far Eastern and southeastern Asia countries have many products which Japan could use and that in turn Japan could provide them with many manufactures. In this connection the Committee makes a rather sweeping statement that *"an eventual shift in Japanese food and other imports from the dollar area to the sterling and Far Eastern areas,* with compensation in Japanese industrial exports, *is essential to any permanent Far Eastern recovery."*

The Johnston Committee recommendations contain a lot of common sense. But it is also true, as some of their critics point out, that for the sake "of taking Japan off the American dole" and saving the American taxpayer money, we are rather unilaterally reversing some of our previous policies with respect to Japan. The Filippinos are very much against setting up "an American financed workshop in Asia," and so are the Chinese. Knowing the Japanese better and having suffered a great deal from them, the Chinese are perplexed by the change in our attitude, and this has much to do with the estrangement of China during the past several months. The British are naturally worried that the rebuilt, modernized Japanese industries will again swamp world markets with many competitive products. Nor are the Australians particularly happy about it.

Cooperation vs. Unilateral Development

"Rather than to foster the unilateral development of a Japan dependent upon the American economy in the face of growing world opposition," Dr. Cohen points out in his already mentioned article in the Far Eastern Survey, "a policy of achieving cooperation in the Far East by consultation and persuasion would not only be far more sensible but would not open us so much to the Russian propaganda charge of self-interest." He would like to see a Far Eastern Economic Conference and the tying together of an economic and military aid program for China, development loans and tariff preference for the Philippines and our need for strategic materials and resources of Southeast Asia, with the future of the Japanese economy and the development of Korea.

Political and Economic Dislocations

But there are other problems involved. It is not at all certain, in view of political disturbances in southeastern Asia—in Burma, Indo-China, parts of Indonesia, Siam and, of course, China—that Japan can successfully restore an interchange of goods with these areas. The continuous political and economic dislocation of southeastern Asia may force Japan to trade with the dollar area, since such raw materials as cotton must be bought here, and to compete more than ever with Western European products in our own market. This is, of course, speculation. No one can foresee the future in all its aspects. (*Please turn to page* 454)

International Harvester vs. Oliver Corporation

By PHILLIP DOBBS

1948 marks the beginning of the second century during which two competitors have been producing equipment to mechanize farm activities. Though in the course of 100 years, International Harvester has far outdistanced Oliver in size, volume and earnings, their operating problems and potentials have many things in common, and it happens that their shares are selling close to the same level at present. For these and other reasons it is interesting to appraise the current status and potentials of these old concerns, and to study the respective merits of their shares.

Labor shortages and the stimulus of wartime conditions forced our farmers to rely upon mechanized equipment as never before in history. As a result, the nation's output of food reached astonishing proportions, despite a rapidly shrinking supply of farm labor, and farm profits ever since Pearl Harbor have piled up impressively. Taking their hard earned lesson of earlier years to heart, the farmers now have both the desire and means to acquire every form of modern power machines available. Also, world demand for similar equipment produced by American manufacturers has become so insistent that for several years to come it seems certain our domestic capacity will be severely overstrained, regardless of substantial expansion programs completed or under way.

Under these conditions of a clear-cut sellers' market, when the output of every well-known producer of farm implements finds immediate takers at satisfactory prices, both of the concerns under discussion are not only doing exceptionally well for themselves but are spending substantial sums (proportionate to their different sizes) to enlarge and modernize their facilities. Already the fruit of this forward looking planning has begun to reach the harvest stage, so that a further uptrend in sales is likely, profit margins could improve, net profits become more substantial. Barring labor troubles, it appears that only a shortage of skilled labor and steel might cloud the otherwise very encouraging outlook for both concerns.

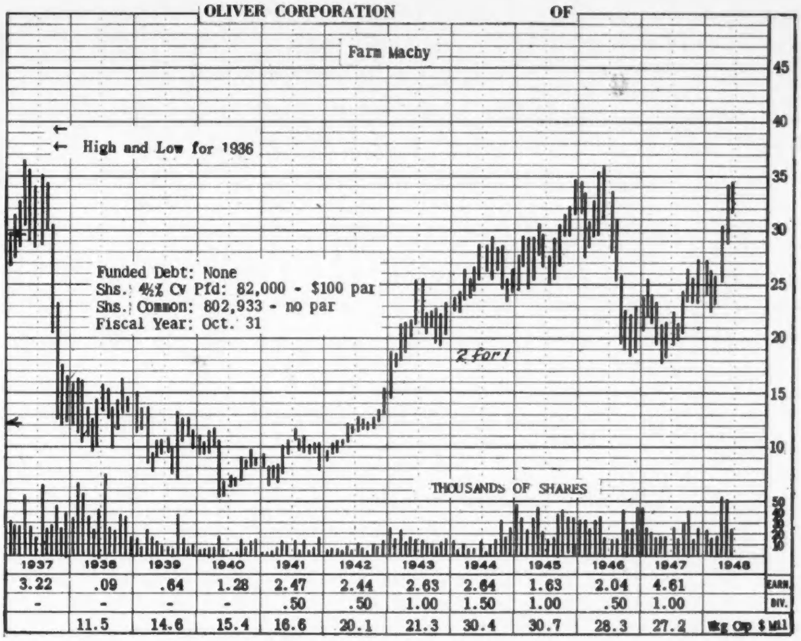
The main value of a comparison such as we are undertaking naturally boils down in the end to consideration of the relative investment fundamentals and speculative potentials of the two common stocks. But to arrive at any conclusions, it is essential to understand the general background of the two concerns as well as their respective capital set-ups and operational results. International Harvester, for instance, is fully integrated whereas Oliver is not. IHC operates its own coal mines, steel mills, coke ovens and sisal plantations and has manufacturing facilities to produce a very wide range of items, besides a long string of distributing and warehousing units all over the world.

Diversification and Research

As for products, one reason that International Harvester has won a dominant position in the industry and achieved a fair degree of stability has been its ability to supply pretty much everything in the form of powered equipment and parts that any farmer might need. Additionally, the company has become a leading truck manufacturer. Through intensive research, the quality and efficiency of these various items has been constantly improved and entirely new ones are constantly being offered to meet long felt needs.

Only recently this concern has announced the beginning of mass production of powered cotton pickers that promise to revolutionize the harvesting of cotton. For some time past, sales have been heavy of corn pickers and huskers capable of handling more than 20 acres per day. As for industrial and farm tractors with their wide assortment of equipment, it would be hard to name a size or special form that the company does not produce. Grain combines, reapers and threshers, cream separators, milkers, haying machines, planters, seeders, potato diggers and other similar products too numerous to mention are all to be found with the IHC label. Then farm wagons, trailers, and trucks rang-

ing from 4,400 to 90,000 pounds gross rating are an important factor in over-all production, plus a broad variety of engines.



Break-Down of Sales

The relative contribution of these major products to International Harvester's record volume of $741.2 million in 1947 is interesting to note. Motor trucks were far and away the most important items in the sales tally, accounting for almost $250 million. Tractors and power units ranked second with sales of $160 million, with total volume of parts reported just under $150 million. Farm implements added about $120 million to the score, miscellaneous items close to $50 million and twine about $12 million.

Aside from the desirable diversification gained by the production of these many items, the large proportion of parts sales is very significant. Profit margins on these are ample, and after the company's machines or trucks are sold, orders for replacement parts are sure to come in, regardless of changes in general economic conditions. For this reason, sales of parts mounted consistently and by 1947 were triple those of twenty years ago.

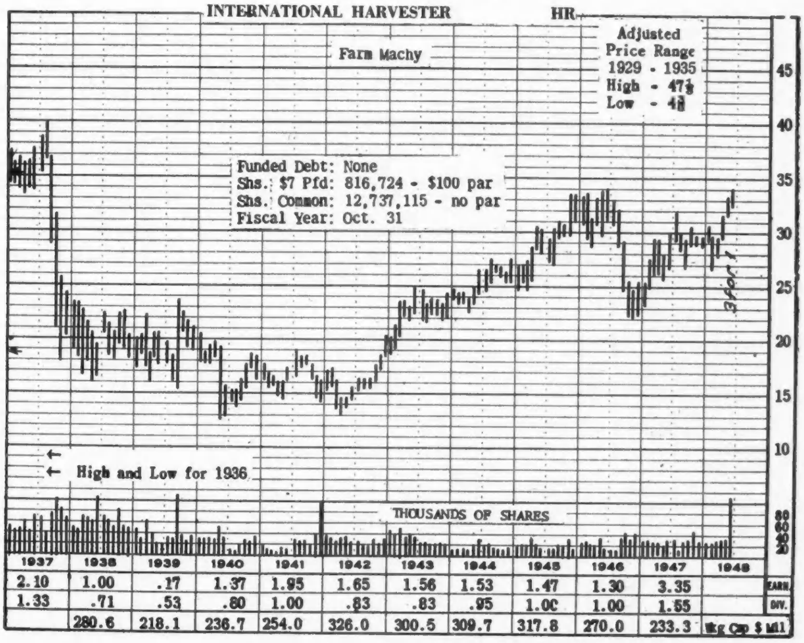
When it comes to distribution, International Harvestor maintains more than 220 facilities in the United States and Canada to sell and service its products, with additional reliance upon about 10,400 retail dealer outlets. Distribution and servicing overseas is effected through subsidiaries located in 20 foreign countries, with large scale manufacturing or assembling conducted by many of these units. About 500 foreign jobbers help to distribute IHC products.

Foreign Holdings

At the end of 1947, International Harvester was carrying its investment in foreign subsidiaries at $66.6 million, compared with total capital of $513 million. Though the company's equity in these subsidiaries was estimated at almost double their book value, due to earnings retained by them, the parent concern has on its books a contingency reserve of $20 million to allow for rehabilitation of certain European units damaged during the war.

Turning to Oliver Corporation, some of the business of this concern owes its origin to the development of a threshing machine by John Nichols back in 1847. This activity was incorporated as Nichols & Shepard Co. and acquired by Oliver Agricultural Equipment Company in 1929. This latter name by degrees was changed to Oliver Corporation. Other concerns acquired at the same period as Nichols were the old established Oliver Chilled Plow Works, Hart-Parr Co., American Seeding Machine Co. and McKenzie Manufacturing Co. In 1944 and 1945, the Cleveland Tractor Co. and Mitchell, Lewis & Staver Co. were added to the family.

Acquisition of these various specialists in the farm equipment field, several of them pioneers, has given Oliver an increasingly diversified production and helped to provide much broader markets than formerly. Oliver equipment now includes well designed and efficient tractors and crawlers, bulldozers, harvesting and threshing machinery, tillage



tools, seeders and the like, many of which have been entrenched in popularity for many decades past. Sale of parts has come to be an important factor, too. Oliver maintains some 40 branches throughout the United States and Canada, and conducts a sizable export business to many foreign independent distributors.

Progress of Oliver Corporation from 1929 to 1935 was none too smooth, as might be surmised because of the highly depressed conditions of agriculture during that period. But in 1935, a recapitalization was effected that cleared up arrears on the preferred stock and since then sales have rather steadily climbed from a level of $12.2 million to a peak of $73.7 million in 1947. While net earnings by no means kept abreast of the gain in volume, operations have been profitable in every year since 1936 and per share net has generally been quite satis-

Comparative Statistical Summary*

	International Harvester	Oliver Corp.
CAPITALIZATION: As of	May 13, '48	Oct. 31, '47
Preferred Stock (number of shares)	816,724	82,000
Common Stock (number of shares)	12,737,097	802,864
INCOME ACCOUNT: Year Ended	October 31, 1947	
Net Sales (000 omitted)	$741,252	$73,782
Net Sales Per Share	$58.30	$92.00
Operating Margin	9.0%	10.3%
Pre-Tax Net Income (000 omitted)	$74,419	$7,655
Pre-Tax Net Margin	10.0%	10.4%
Net Income (000 omitted)	$48,469	$4,072
Net Per Share	$3.36	$4.61
LONG TERM EARNINGS RECORD:		
1947	$3.36	$4.61
1946	1.30	2.04
1945	1.37	1.63
1944	1.54	2.64
1943	1.57	2.63
1942	1.65	2.44
1941	1.96	2.47
1940	1.37	1.28
1939	.18	.64
1938	.57	.09
10-Year Average Earnings, 1938-47	$1.49	$2.04
1946 Dividend (Calendar Year)	$1.00	$.50
1947 Dividend (Calendar Year)	$1.22	$1.00
10-Year Average Dividend, 1938-47	$.93	$.53
BALANCE SHEET (000 omitted): As of	October 31, 1947	
Cash and Securities	$110,813	$6,040
Cash and Securities as % of Current Assets	32.3%	15.2%
Inventories	$201,417	$26,307
Inventories as % of Current Assets	59.2%	66.3%
Total Current Assets	$340,251	$39,737
Total Current Liabilities	$106,941	$12,477
Net Working Capital	$233,310	$27,260
Current Ratio	3.2	3.2
Fixed Assets, Net	$206,188	$15,990
Total Assets	$620,119	$56,330
Book Value Per Share	$33.88	$44.41
Net Current Assets Per Share†	$19.00	$24.00
Recent Price of Common	$34.00	$36.00
Dividend Yield (on 1947 Dividend)	3.6%	2.8%
Price-Earnings Ratio (to 1947 Earnings)	10.1	7.8
LATEST DATA:		
Net Sales (6 mos. April 30) (000 omitted)	$433,899	$48,085
Per Share (6 mos. April 30)	$2.01	$4.07
Dividends Paid 1948 to Date	$1.35	$1.25

*—Adjusted for stock split-ups.
†—After deducting senior obligations.

history, with a sharp upturn now in evidence.

What lends special interest to recent progress by both Oliver Corporation and International Harvester is the element of postwar expansion. Since the end of 1945, Oliver has undertaken to modernize and expand its facilities extensively, considering its relatively smaller size. By the end of October, this concern will have spent about $23 million for the purpose, with further outlays of $4 million planned for 1949. This should result in nearly doubling its capacity upon completion, and has already helped to lift sales substantially. 1948 volume in fact should closely approach $100 million.

Capital Expenditures

International Harvester's capital expenditures during its last three fiscal years have been approximately $130 million, with commitments of additional $30 million and unexpended appropriations of $50 million, when its fiscal year ended last October 31. The full or near completion of improvements on this large scale enabled the company to establish an all-time record volume of $741.2 million in fiscal 1947, with prospects of substantial improvement in the current year. Looking further ahead, the company expects to make large capital expenditures for several years to come, thus enhancing volume potentials over the medium term, provided no set-back in demand occurs.

We have appended a comparative statistical summary of International Harvester and Oliver Corporation to assist our readers in studying their relative size and operational accomplishments. Only a few months ago, the larger concern effected a three for one split of the common shares, and our figures have been adjusted accordingly.

At the start it should be noted that the number of IHC shares outstanding are more than 15 times those of Oliver and that its total assets are about eleven times larger. In appraising the operating figures of Harvester, it should be realized that only dividends actually received from foreign subsidiaries, rather than ratable net earnings, are included in the company's income account. Otherwise 1947 net earnings would have been about $14 million larger than shown. At this point it may be interesting to know that these foreign subsidiaries paid dividends aggregating $7.1 million to the parent concern, retaining twice as much in their respective businesses. If a consolidated income report were available, many of the figures and percentages we show in the IHC column would have to be correspondingly revised.

Simple Capitalizations

The capital structures of both Oliver Corporation and International Harvester are fairly simple as shown in the latest balance sheets. Neither concern has any funded debt, but Oliver has 82,000 shares of preferred stock outstanding and IHC 816,724 shares of preferred, both of $100 par value. Oliver, however, has a smaller proportion of common in relation to its senior securities, the ratio being about 10 to 1 compared with more than 15 to 1 in the case of Harvester. Neither of the two concerns at the end of the fiscal year were in debt to their banks, but since then Oliver has availed itself to some extent of a short term bank credit aggregating $8 million, while Inter- (*Please turn to page* 457)

Harvesting cane sugar is an old fashioned yet amazingly fast process.

Photo by Wide World

Outlook for SUGAR Industry

By STANLEY DEVLIN

The world sugar industry is arbitrarily divided into two great zones—the United States and its affiliated areas, Cuba, Puerto Rico, the Hawaiian Islands and the Philippines; and other world producers. Our Government takes a deeply paternal interest in the sugar industry, and more particularly the beet sugar industry within this country; it regulates imports directly and through tariffs, pays subsidies, allocates production quotas, and has differing relations with the four affiliated island areas (all of which, however, enjoy some measure of U. S. protection).

The U. S. has always had a tariff wall, but Cuba enjoys a preferential tariff, and we always buy the greater part of its crop. But when over-production occurs, Cuba must "dump" its excess sugar in the competitive world markets, which makes its economy subject to wide fluctuations. Puerto Rico and Hawaii, being U. S. territories, do not have to scale the U. S. tariff wall. The Philippines, now independent, will eventually have to pay the tariff, but they will reach that point by easy stages under a sliding scale arrangement; their production is relatively low at present.

Outside the U. S. and its affiliates the principal pre-war exporting country was Java, but it has not yet regained its pre-war status. During the war some other countries, such as Mexico and Brazil, have stepped up their production and entered the export markets. In Europe, Germany, Czecho-Slovakia, Ukraine and Poland were big sugar beet producers before the war (with government encouragement) but much of their crop was for home consumption. Other European countries are actively at work to make Europe less dependent on refined imports; Switzerland may double its refinery output, Greece is planning to erect 7 to 10 new factories, and Eire is modernizing her beet culture and building new plants. The trade magazine "Sugar" states: "Faced with the absolute necessity of increasing the nutrition level and the standard of living, Europe is turning to increased sugar beet planting this spring." Increasing production in Europe and in the Orient may help swamp sugar markets in another year or so, but this debacle is not yet in sight.

Overproduction and Price Drop

Soon after World War I, the sugar industry like many others, got out of hand and over-production resulted in a disastrous drop in prices. Trouble occurred again in 1930-32. In 1934 Congress passed the Jones-Costigan Act, in an effort to stabilize and regulate the sugar industry by the application of production quotas in the affiliated areas. Another Act was passed in 1937, but quotas were suspended from April 1942 to December 1947 in order to obtain additional sugar during the war. In 1948 the new Sugar Act was passed, the primary purpose being to subsidize our beet sugar industry and to protect growers of sugar cane in the U. S., Hawaii and Puerto Rico.

Like much of our farm legislation, the Sugar Act was designed to limit output well below maximum capacity, and also to maintain relatively high wages and labor standards. The subsidies vary inversely with the size of the individual crop, big producers getting only about 3 mills a pound, while small producers may get up to 8 mills. (These

Statistical Summary of Sugar Companies

	Net Per Share: 1936-1939 High	Net Per Share: 1936-1939 Low	Net Per Share: Fiscal Years 1944-45	Fiscal Years 1945-46	Fiscal Years 1946-47	Dividends 1946-47	Dividends 1947-48*	Recent Price	Div. Yield‡	Price-Earnings Ratio†	Price Range 1948
Cuban-Dominican Producers											
Central Violeta Sugar	$ .81	def$ .04	$2.57	$2.79	$7.23	$1.37	$2.00	$11	11.4%	1.5	15 -10⅞
Cuban-American Sugar	.70	def.81	2.45	2.11	6.13	1.00	1.75	15	6.7	2.4	16½-12⅜
Cuban Atlantic Sugar	2.55	.72	3.14	4.26	10.68	2.00	3.00	18	11.1	1.7	20¾-16⅜
Francisco Sugar	.50	def.61	.74	3.99	8.06	Nil	2.00	14	......	1.7	16⅜-12⅝
Guantanamo Sugar	.23	def.63	.55	1.01	4.83	.25	1.00	7	3.6	1.4	9 - 5⅛
Manati Sugar	.22	def.35	1.19	1.54	5.16	.75	1.00	10	7.5	1.9	10½- 7
Vertientes-Camaguey	.52	.23	2.48	3.08	5.28	1.00	3.00	14	7.1	2.7	15½-12⅝
West Indies Sugar	1.28	.09	4.06	6.18	10.78	3.50	3.50	22	15.9	2.1	26⅜-19½
Puerto Rican Producers											
Central Aguirre Sugar	3.97	1.15	1.39	.97	2.83	1.50	2.27	17	8.8	6.0	18⅞-16½
Fajardo Sugar	6.32	2.08	.49	def.15	9.62	1.25	4.50	29	4.3	3.0	31¼-26¾
South Porto Rico Sugar	3.00	1.12	4.06	7.49	12.00	7.35	5.00	41	17.9	3.4	43⅞-36½
Beet Sugar Producers											
American Crystal Sugar	3.91	.19	1.00	1.37	4.59	.60	2.50	21	2.9	4.6	22½-16
Great Western Sugar	3.53	1.47	.88	1.20	1.89	1.20	2.20	22	5.4	11.6	23⅛-20
Holly Sugar	5.42	1.05	1.13	1.36	1.02	1.00	1.25	28	3.6	27.5	30¾-15¼
Refiners											
American Sugar Refining	2.67	def6.10	3.17	3.60	15.84	2.00 c	2.50 c e	39	5.1	2.5	41 -34½
National Sugar Refining	2.52	def2.23	2.46	3.07	4.84	1.45 c	1.60 c f	23	6.3	4.7	25⅜-22

*—To date.
†—Based on 1946-47 earnings.
‡—Based on 1946-47 dividends.
c—Calendar years 1946 and 1947.
e—Plus $4.00 paid in 1948.
f—Plus $1.50 paid in 1948.

figures compare with current prices for raw sugar around 5¾ cents a pound, and 7¾ cents for refined). The subsidies are financed through excise taxes averaging about 5 mills per pound, and thus the subsidy-excise system operates independently of the tariff.

How Sugar Act Works

Under the new law the Secretary of Agriculture is supposed to look into his crystal ball in December and decide how much sugar U. S. consumers will need in the following calendar year. He then assigns quotas to each area supplying the U. S. market, based on the fixed percentages provided in the Act. In gauging estimated consumption he is supposed to take into account the distribution of refined sugar in the 12 months ended October 31st, changes in inventories during the year, and indicated changes in consumption. However, the Act wisely gives the Secretary power to revise consumption figures from time to time; and if any major area appears unable to produce its quota he can pro-rate the deficit to the other areas. The domestic refining industry is also protected under the Act by an arbitrary limit on imports of refined (as distinct from raw) sugar.

While the quotas are subject to change, as indicated above, the following percentages will give a general idea of the importance of each area:

Cuba	29%
Domestic beet	24%
Hawaii	14%
Philippines	14%
Puerto Rico	12%
Domestic cane	7%
	100%

From a financial point of view we are interested in "world" sugar (outside of the above areas) only to the extent that Cuban producers are affected marginally by the so-called world price, which reflects conditions outside of the U. S. zone of influence. The sugar companies in which we are currently interested fall in four major groups: Cuban producers, Puerto Rican producers, U. S. beet sugar companies and U. S. refiners.

Cuba, whose economy largely revolves around its sugar crop, has had a long series of industrial cycles reflecting recurring over-production and sharp price changes in the commodity. In future, however, the quota system may give it some greater measure of stability, though this is doubtful unless Cuban growers cooperate closely with Washington. In 1929 Cuban production rose to 6 million tons, three times as much as in 1910, and New York banks loaned heavily to the Cuban planters. All this spelled disaster in 1932 and it took another world war (plus good growing weather) to bring production back to the 1929 level in the year 1947.

Cuba's Role as World and U. S. Supplier

In an attempt to gear Cuban production to the U. S. quota system, the Cuban government now imposes limitations on output and the mills are on a quota basis. During the war, however, quotas were discontinued by both the U. S. and Cuba. Continuing through 1947 practically the entire Cuban crop was sold to the U. S. government, the terms being negotiated between U. S. and Cuban governmental agencies; contract prices were adjusted for changes in the U. S. cost of living index compiled by the Bureau of Labor Statistics.

With increased production and lowered U. S. demands (now that the armed forces are much less of a factor), Cuba must again sell about a third of its crop in the world market. With competitive conditions returning in world markets, Cuban producers may lose money on sugar sold to Europe, recouping themselves through U. S. sales. In the event of a crop failure somewhere in the U. S. hegemony, Cuba would benefit by diverting more of its production to this country; conversely it

suffers under the quota system whenever U. S. consumption estimates are reduced, as has happened twice this year.

Puerto Rican production of raw sugar during the 1930s averaged somewhat less than the 910,000 tons which could be shipped to the United States under the Sugar Act. By 1942 production had increased to over 1.1 million tons, but dropped to 724 million tons in 1944 due to drought and other factors. By last year it had almost recovered to the 1.1 million ton level.

Puerto Rican Land Expropriation

Puerto Rican laws and regulations covering sugar production are very complicated. Corporations can no longer hold more than 500 acres, so that the big properties are being broken up and the land sold to the Puerto Rican Land Authorities. Sugar companies are now considered public utilities and their profits are limited to 7% on the property values, which are fixed by arbitration.

U. S. sugar beet production, well protected by favorable legislation, has shown greater stability than the cane sugar industry in the insular areas. However, due to the flexibility of American farm production, the acreage devoted to beet sugar may vary not only with the price of sugar, but also with profits obtainable from other crops. With heavy production of other crops during and since the war, beet sugar production has dropped below the high level of 583,000 tons reached in 1939 (last year's crop was only 425,000 tons). This year there has again been some diversion of acreage—an estimated 10%. While the industry grew rapidly in the 1930s (more than quadrupling production during the decade 1929-39, in contrast to declining Cuban production), it now appears to be losing ground to more profitable crops. In other words, beet sugar is primarily a depression industry.

This Year's Developments

What has been happening to sugar this year? With the postwar shortages of consumers and dealers fully taken care of last year, the movement of sugar into consuming channels in the United States became sluggish in early 1948, and prices declined. At the beginning of the year, spot duty-paid sugar was quoted at 6.32¢ per lb., the level since mid-1947 under price control. By February the price had dropped to 5.45¢ and in May was down to 5.15¢. However, in the past month the price advanced to 5.70¢, a recovery of about ½¢ in the past month. Refined cane sugar was 8.4¢ on January 1st (the former price ceiling), but a series of cuts brought it down to 7.5¢ in May, from which it has recovered to 7.75¢ presumably in sympathy with the general strength in commodity prices since mid-May. Beet sugar prices also declined this spring below the level of 8.1¢, at which the Government had guaranteed average returns to beet processors for sugar made from the recent harvest.

During the first four months of 1948, sugar imports were about 17% lower than last year, despite re-entry of the Philippine Republic into the United States market after a six-year lapse. The national sugar requirement for 1948 was initially set by the Secretary of Agriculture at 7,800,000 tons but was later cut, in two stages, to 7 million tons, Cuba bearing the brunt of this reduction. The reduction was made despite the end of rationing. It probably did not represent any decline in consumption, but is explained by the heavy stocks accumulated by users in the latter part of 1947 when rationing was ended but price controls remained effective.

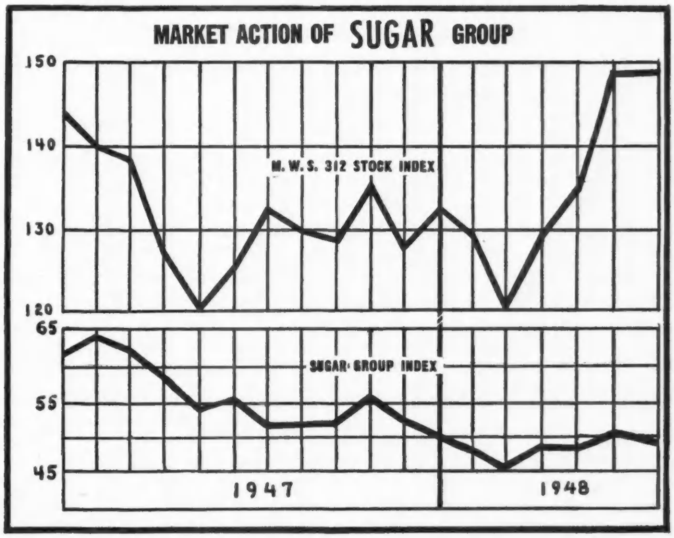
By April this condition had apparently been righted and in that month 563,000 tons were distributed compared with 497,000 tons in April 1947. Cumulative distribution through May 8 was also slightly higher than for the same period of 1947. Whether the 7 million ton consumption figure will have to be raised slightly during the balance of the year remains in question; last year's actual figure of 7,717,000 tons included deliveries to meet the abnormal demands in June and October caused by easing in controls.

Rising Sugar Stocks in U.S.A.

Sugar stocks in continental United States gained substantially last year, though remaining slightly below the pre-war average. As of May 1 this year, supplies showed a further gain, though "invisible" stocks in the hands of industrial users, wholesalers and retailers appeared to be below pre-war. On balance, supplies still appear ample, even if there is some increase in the rate of consumption.

A rise in refined sugar prices occurred at the end of June, and this is expected to revive the pre-war practice of booking shipments within 30 days at prices prevailing before the increase becomes effective. This might stimulate large orders from beverage makers and others who have been carrying small inventories awaiting price developments. Recent labor troubles of eastern refiners have apparently not been an important market factor, except to the extent that western beet refiners temporarily benefitted.

What about the outlook for the stocks of the sugar companies? The former downward trend in sugar shares would seem to have discounted rather amply the adverse trade (*Please turn to page* 455)



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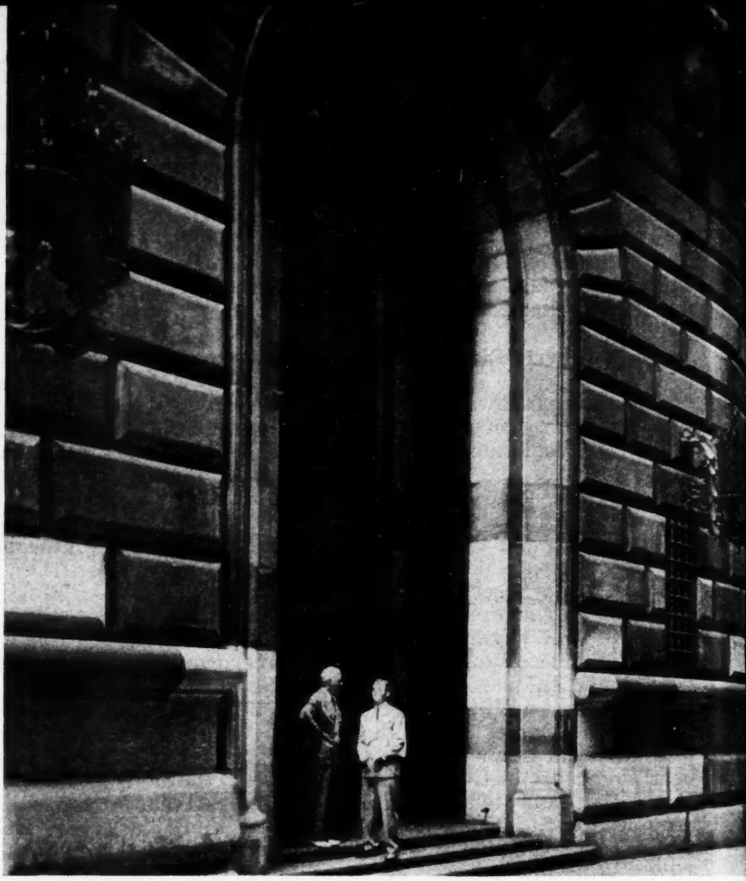
BANKS

AT

MID-YEAR



By

H. S. COFFIN

Midyear reports of the nation's commercial banks should be encouraging to their shareholders, though prospects of any improvement in dividends during the near term are not bright. As the element of stability, however, has always been the major factor in appraising bank shares, current indications that for an indefinite period ahead no change in most dividend rates will occur, lends confidence in this special investment medium.

During the first half of 1948, last year's trend toward smaller earning assets in the main continued despite the usual exceptions. During the twelve-month period ended December 31, 1947, the retirement of Government debt contributed to widespread shrinkage of such assets, as result of which net profits of the 6,900 banks in the Federal Reserve System were 14% lower than in 1946, last year's total net after taxes amounting to about $654 million compared with some $760 million in the previous period. Expressed in another way, this representative group of banks earned 7.9% on invested capital in 1947 against 9.6% a year earlier.

Decline in Earning Assets

While fully comparable figures are not available for the current year to date, at midyear the New York members of the Federal Reserve System reported about 6% less earning assets than they had on December 31. There are signs, though, that the tide is turning and that from now on the rather long continued downtrend in investible funds may at least level off, if not reverse itself to some extent. It should be realized that heavy tax receipts during the first half were used by the Government to retire bank-held debt, so that demand deposits shrank almost a billion dollars during the six months. There is little chance that Federal debt retirement will continue anywhere near the former rate during the balance of the year, and if industrial activity continues brisk as it probably will, the outlook for well sustained earning assets is enhanced.

Of equal importance is the shift in earning assets that tends to swell operating profits. Sharply reduced holdings of Government bonds have been followed by an equally pronounced gain in loans by banks throughout the entire country. Demand for industrial loans to finance higher priced inventories and for expansion or modernization, along with record breaking gains in housing loans and a stiff spurt in installment credit, has shifted large sums into more profitable fields than before. Realized profits from investment sales, to be sure, have been much reduced by poor market conditions, but this factor is being more than offset by a hardening of interest rates all along the line.

Many bankers believe that prime credit risks will be paying 2% before the end of 1948, and some think that the Treasury will have to step up its current pegged short term rate of 1⅛% to aid the Federal Reserve Board in trying to stem inflation. The FRB has been availing itself of its authority to increase reserve requirements in order to curb credit expansion. It latterly upped the percentage for New York and Chicago banks from 22% to 24%, and quite possibly may go to the 26% limit by next fall. This would mean, as in the recent case, further disposal of sizeable amounts of Government obligations, and corresponding loss of interest income.

Operating Outlook

The Federal Reserve Board of course could raise its rediscount rate but this in turn would tend to

Statistical Summary of Leading Bank Stocks

	Book Value Per Share 12/31/47	Book Value Per Share 6/30/48	Deposits—$ Million 12/31/47	Deposits—$ Million 6/30/48	Tot. Assets $ Million) 6/30/48	% of Total Assets U. S. Gov't Securities	% of Total Assets Loans & Discounts	Net Per Share 1947	Net Per Share 6 mos. 1948	Div. 1947	Recent Price	Div. Yield
Bank of Am., N.T. & S.A.	$30.14	$32.09	$5,467	$5,433	$5,859	29.2%	44.4%	$4.25	$3.23	$2.25	$46	4.9%
Bank of Manhattan	32.24	32.73	1,140	1,088	1,169	29.0	36.5	2.07	1.38 c	1.20	25	4.8
Bankers Trust	50.25	50.98	1,483	1,305	1,515	34.3	35.7	2.72	1.63 c	1.80	42	4.3
Central Hanover	121.46	122.46	1,492	1,409	1,554	39.0	29.0	7.26	N.A.	4.00	93	4.3
Chase National	43.52	43.78	4,477	4,154	4,551	35.8	32.1	2.68	1.06	1.60	36	4.4
Chemical Bank & Trust	43.26	43.84	1,284	1,361	1,515	29.0	35.0	2.95	1.48 e c	1.80	41	4.4
Continental Illinois	90.22	91.97	2,229	2,082	2,275	49.5	19.3	7.79	N.A.	4.00	82	4.9
Corn Exchange, N. Y.	58.12	59.18	782	752	799	59.0	9.9	5.03	N.A.	2.80	57	4.9
First National of Boston	42.75	43.51	1,338	1,311	1,461	30.4	39.0	4.13	1.77	2.25	48	4.7
First National of Chicago	222.60	231.71	2,153	2,017	2,178	34.4	36.4	14.57	N.A.	8.00	220	3.6
First National of N. Y.	1,367.46	1,369.56	591	529	698	52.8	13.5	87.66	42.10	80.00	1340	5.9
Guaranty Trust	360.67	363.85	2,452	2,310	2,800	40.1	31.1	18.28	9.18	12.00 b	273	4.4
Irving Trust	22.90	23.10	1,073	1,013	1,146	33.5	36.0	1.32	.60	.80	17	4.7
Manufacturers Trust	60.03	61.42	2,320	2,116	2,266	45.0	24.5	5.18	2.59 c	2.40	52	4.6
National City of N. Y.f	48.18	48.93	4,992	4,747	5,131	37.0	25.4	3.39	1.67	1.60	40	4.0
National Shawmut	40.66	N.A.	375	N.A.	N.A.	N.A.	N.A.	3.41	N.A.	1.00	26	3.8
New York Trust	107.33	108.46	729	589	662	36.2	38.0	7.08	3.14 c	4.00	89	4.5
Philadelphia National	83.55	84.44	699	669	736	40.2	20.5	5.88	N.A.	5.00	102	4.9

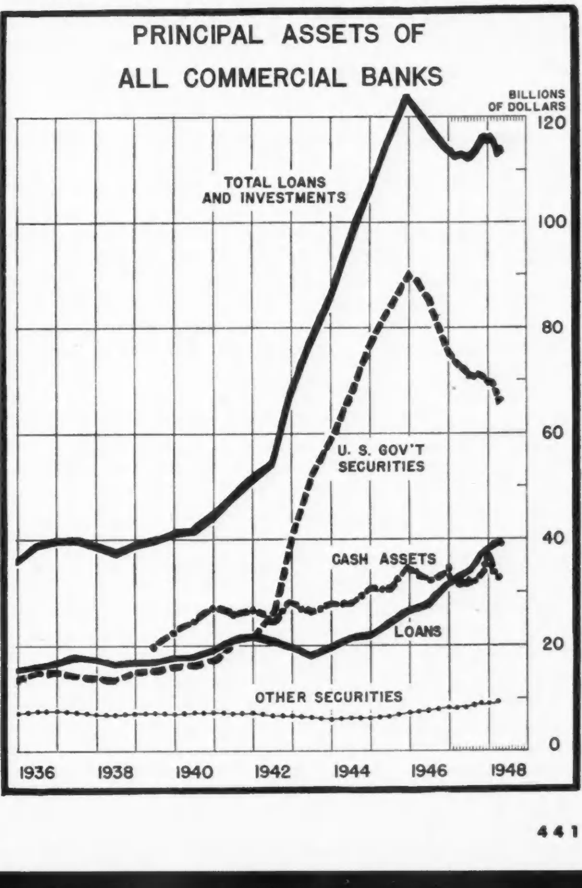
N.A.—Not available.
b—Plus one share of stock for each nine shares held.
c—Net operating earnings only.
e—Includes Continental Bank & Trust Co. since acquisition on May 1, 1948.
f—Including City Bank Farmers Trust Co.

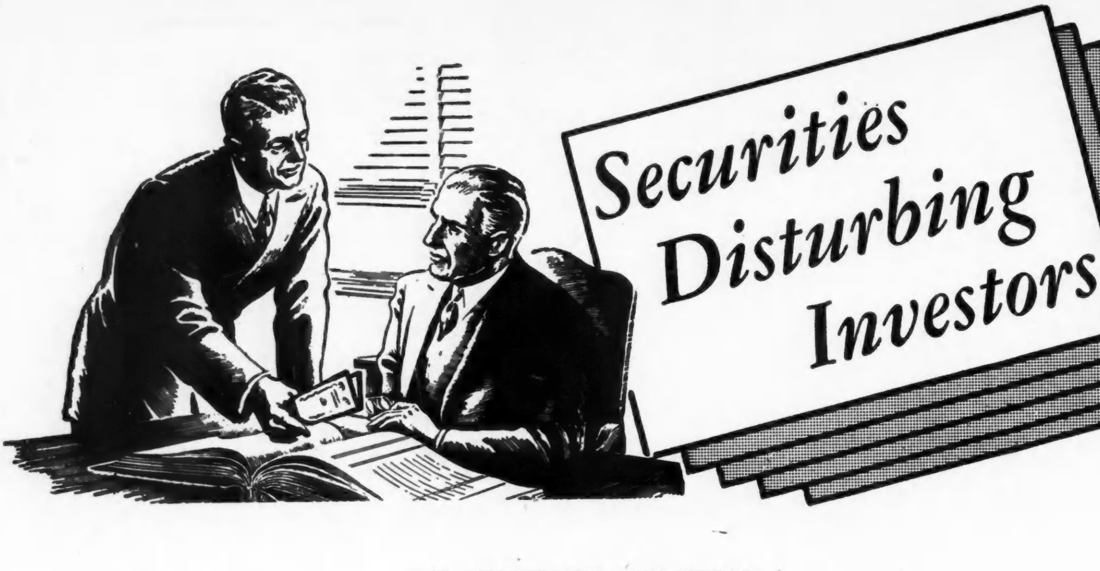
harden interest rates still more, a trend not now desired by the Treasury Department. On balance, the outlook for general improvement in operating income by the banks during coming months has an encouraging aspect, especially as institutions in the larger centers are finding business abroad increasingly profitable and have generally succeeded in upping many special service charges on the domestic front. Sight must not be lost of a possible further rise of about 5% in wage costs, however, before 1948 comes to an end.

Just how impressively the shift towards higher rate loans as a partial substitute for interest received from low rate Government obligations is affecting the operating income of banks is well shown by 1947 figures. For the first time since prior to the late war, loan income exceeded interest derived from Federal securities last year, as shown by reports of the 6,900 banks comprising the Federal Reserve System. Earnings from loans totalled almost $1.04 billion, up $266 million, while interest on Government securities declined $137 million to $917 million, both compared with 1946. This trend seems to be developing on an increasing scale under 1948 conditions.

Modest Improvement in Net Earnings?

As for net earnings, conservative bankers are anticipating no marked uptrend from now on. Rather, if the general decline experienced by many of them since the beginning of last year is halted and a modest improvement should now set in, such a trend should be considered satisfactory. That the consensus of banking opinion points to heightened confidence is shown by payment of $280 million in dividends by members of the Federal Reserve System in 1947. This was about $13 million more than in 1946, regardless of generally lower net earnings. It should be remembered, though, that this evidence of greater dividend liberality did no more than raise the proportion of dividends to net earnings to a modest ratio of around 40%. This percentage is not likely to be increased soon, because most of the banks need to retain a substantial share of earnings in order to keep capital resources in more desirable relationship with expanding deposits. To achieve this, many banks (*Please turn to page* 456)





By RICHARD COLSTON

The recent recession in general market prices seems to have intensified the anxiety of many investors holding special stocks, the laggard behavior of which had proved puzzling for some time past. The heavy mail received by us attests to this situation. So many of those inquiries show concern about specific situations that it seems timely to choose a few of them for discussion in our columns.

Many of our readers lacking up-to-date information as to what may have occasioned the disturbing market action of certain shares are naturally perplexed about whether they should sell out, sit tight or average up. While variations in individual investor circumstances and programs preclude the use of rigid yardsticks applicable to everyone, an analysis of some of these situations should assist in coming to definite conclusions as to future action.

Air Reduction Company

The shares of this prominent industrial gas manufacturer have been hovering around 25⅝ recently, only about half a point above their low for the current year. This compares with a 1947 range of high —38⅞, low—25⅛ and a range in 1936 of 86½-58. Since then quotations have intermittently receded to the current level. Since net earnings have been stable on the whole, dividends have been paid without a break from 1917, and the company's financial status is exceptionally strong, it is small wonder that some shareholders have expressed apprehension over the market action of this stock.

Reassurance is provided by a study of the fundamentals of Air Reduction and a realization of the important part played by current yields in determining share prices. In the first postwar year, net earnings of this concern receded rather significantly from flush wartime levels and as the management planned a $25 million expansion program, the dividend was reduced to $1.75 per share in 1946 from $2 paid in the previous five years. Although 1947 sales and earnings developed substantial improvement, the management considered it wise to retain an even larger part of earnings to further the expansion and modernization program, and consequently cut quarterly dividends to 25 cents per share. During the first two quarters of 1948 this rate has remained unchanged. It should be realized that on this basis the shares around 22½ provide a yield of only 4.45%, not far out of line with that now available from other good equities.

As for fundamentals, Air Reduction along with Union Carbide & Carbon Corporation supplies most of the industrial gases used in the economy. While electric welding has provided increasingly heavy competion for oxygen and acetylene gases, markets for the latter have been broadened during the current industrial boom. Another product, dry ice, enjoys a substantial uptrend in demand and the production of low purity oxygen for steel production promises to revolutionize operations in that industry.

Air Reduction's sizable expansion program indicates confidence by the management that demand will absorb the increased output and swell earnings satisfactorily. Reported net earnings of 50 cents per share in the March quarter promise stability for the 25 cents quarterly dividend, with good prospects of improvement in due course when facilities now under construction become productive. In our opinion the shares warrant retention, or averaging with proper timing, in view of indicated appreciation potentials over the medium term.

Swift International Company, Ltd.

While the price of Swift International shares, recently at 15⅞, is slightly above the low of 14⅞ for 1948, the current quotation is far lower than any recorded in the 1934-47 period. Back of this price weakness has been an announcement by the company's president that operations early this year were unprofitable, and that difficulties over exchange regulations had forced an interruption in dividends for the first time since 1919. Accounting for these adverse factors is the serious handicap of an American concern trying to conduct business under the restrictive influence of a government controlled

Pertinent Statistical Data

	Net Per Share 1946	Net Per Share 1947	Interim Reports		Divs. Per Share 1946	Divs. Per Share 1947	Div. Yield*	Recent Price	Range 1948
Air Reduction	$1.66	$2.08	3 mos. March 31	$ .50	$1.75	$1.00	4.5%	$22	27⅞-22½
New York Central	def1.62	.36	5 mos. May 31	def.47	1.00	Nil	......	18	18½-12½
Swift International	3.68 b	1.86 b	......		1.60	1.60	10.0	16	22 -14⅞
Twentieth Century-Fox	7.90	4.81	3 mos. March 27	1.00	4.00	3.00	14.3	19	25⅝-19
U. S. Lines	4.92	6.79	3 mos. March 31	.19	1.00	2.12c	12.4	16	21¼-15¾

*—Based on 1947 dividends.
b—In U. S. dollars.
c—Plus 10% stock dividend.

economy. In Argentina wages have been forced sharply upwards though no price adjustments have been permitted. At the same time the efficiency of labor has deteriorated. Finally, the dollar resources of Argentina have diminished to a point where the central bank has imposed stiff rules that preclude the transfer of dividends in dollar exchange, at least for the time being. Though the long term record of Swift International has been excellent, it seems to us that until the political and economic situation in Argentina is improved, investors in retaining these shares are exposed to a considerable gamble.

Twentieth Century-Fox Film Corporation

A $10.5 million decline in gross revenues in 1947 sharply reduced net earnings of this concern compared with the previous year. In reflection of this adverse showing, characteristic of the entire moving picture industry, the company's shares declined from their 1947 high of 38¾ to a low of 19 recently, from which level a rebound to around 20½ has occurred. As a result of lower earnings, dividends have been reduced to 50 cents per share quarterly compared with the 1947 quarterly rate of 75 cents. Last year's drop in gross revenues was caused by a $5.65 million decline in theatre revenues and a $4.35 million reduction in film rentals from foreign sources, chiefly the United Kingdom. Then operating margins were squeezed by rising costs and depreciation of expensive pictures produced the previous year. 1947 net earnings per share of $4.81 contrasted with $7.90 reported the year before.

There is an encouraging side of this picture, though. For many months past, Twentieth Century-Fox has been taking steps to cut drastically operating expenses, with the prospect of substantially lowering depreciation on numerous forthcoming pictures. While net earnings for the quarter ended March 27 were only $1 per share, they covered the dividend twice over and the management seems confident that from now on an uptrend in earnings should be expected. The company's financial position is very strong indeed and it has only partially drawn upon a $25 million credit arranged to assure modernization and improvement plans. After weighing all the factors, it appears that these shares have considerable speculative merit around recent levels.

United States Lines Company

Shareholders in this leading domestic steamship line have expressed anxiety over the recent market behavior of the stock, of late close to the low for the current year to date. At around 16, the shares are about 8 points below their 1947 high of 24⅜. This action has been puzzling in view of the management's prediction that maintenance of the annual $2.50 per share dividend rate is probable. But net earnings in the 1948 March quarter dropped to 19 cents per share, though this did not include substantial subsidy payments that may be granted by the Government in due course.

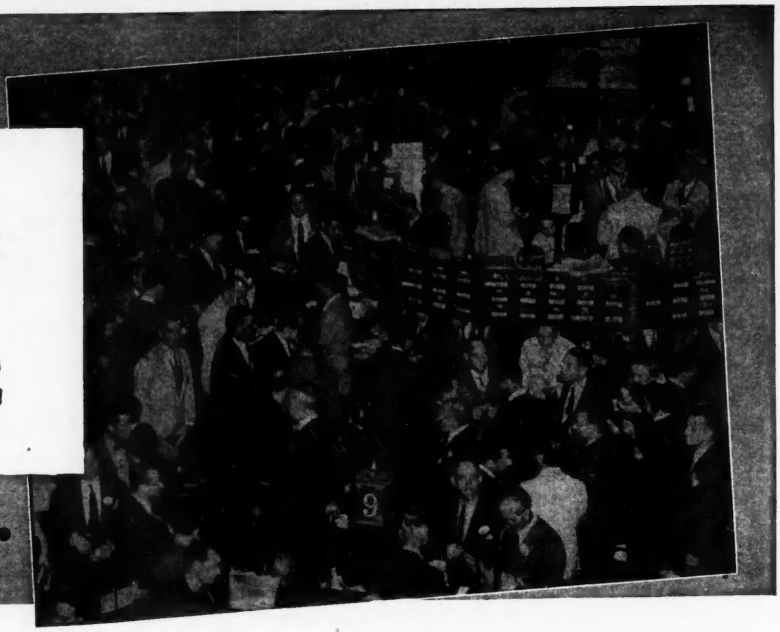
First half year revenues are expected to reflect a lull in freight shipments to Europe, but this should be overcome by rapidly enpanding cargoes in connection with ERP. The company's liners are fully booked for the summer and fall, while six Victory type ships have been added to the company's large cargo fleet in anticipation of heavier demand for freight space. The strong reliance of American shiplines upon subsidies is not a favorable factor, but in view of the Defense Program, Congress seems certain to be generous. The shares have a measure of speculative attraction, although prior to the war, they would have been considered amply priced at recent levels. And foreign competition is going to be keener than ever.

New York Central Railroad Company

There is nothing unusual about our flow of inquiries about New York Central shares, for speculation is always rife as to the outlook for these equities. But a decline in price from a high of 22⅜ in 1947 to around 12 earlier this year and a current rise to only above 16 appears to have stirred up some apprehension. Hopes of stockholders were buoyed when 1947 net earnings rose to a modest 36 per share compared with a deficit of $1.62 for 1946, but were somewhat dashed when during the first four months of 1948, a deficit of 75 cents per share was reported. Severe weather and the coal strike largely accounted for this poor showing.

The management is optimistic enough to expect the recent increase in rates and well sustained traffic volume to overcome early losses and to push net earnings for the full year up to a level slightly above 1947. Since the railroad has been spending tremendous sums for new equipment, improved efficiency eventually may bring net earnings to a significantly higher level, but during a reasonable period ahead the outlook for a resumption of dividends is dim. As a purely speculative medium these shares are very popular, but since their market status is influenced mainly by psychological factors and variations in general market conditions, it is difficult to appraise their potential price behavior. Based on fundamentals, however, there seems to be room for appreciation over the longer term.

FOR PROFIT AND INCOME



Limited

It has been made pretty clear that in the summer of 1948 investors by and large do not have enough confidence to go for stocks around or above the 190 level for the Dow-Jones industrial average. Despite the latest market break, it may now be demonstrated that investors are not willing to do too much selling in a soft market. Barring war, which inevitably would produce a bear market, very likely this is still a trading range market not much different from that of October, 1946, to May, 1948, despite the Dow-Theory bull-market "signal" that was given on the good May performance. Let us not complain. There is no lack of opportunity in a trading-range market, although you have to be both more nimble and more selective than in a bull market. Also it calls for more limited objectives.

Value

We have previously forecast an increase in the $3 General Motors dividend. The chances are that it will come early in August and that the new basis will be $4 a year, still decidedly conservative relative to present earning power. Assuming $4, the yield offered at the market price prevailing as this is written is about 6.7%. General Motors does not operate in a stable industry, yet is a better income producer than you might imagine. It has paid unbroken dividends since 1917; the smallest payments were $1.25 in the Big Depression and $1.50 in 1938; the average payments of the prewar period 1936-1939 were $3.31 a share; and the average for the last 12 years has been $3, or the present rate. This record makes a 6.7% yield a great deal more attractive than it would otherwise be. The stock will probably improve its relative market position over the medium term. It could do so either by advancing more than the industrial average or declining less. This column regards it as a conservative buy in market recessions.

Lerner

Lerner Stores is outstanding in several respects. First, it had record high profit of $3.70 a share last year, a sizeable gain over 1946, whereas retail earnings on the whole saw their peak in 1946. Second, sales gains so far this year (about 18%) are above the average for this field, which is women's and children's apparel. Third, profits will show another excellent gain this year, probably rising to the vicinity of $4.50 a share, whereas retail earnings as a whole figure to differ little from those of 1947. In reflection of these things the stock rose this year from a low of 16¼ to a recent high of 26¼, a performance far superior to those of both the retail group and the general market. It is around 23 as this is written, yielding about 6.5% on the well-covered $1.50 dividend rate. This chain has had a remarkable growth, increasing sales about six-fold and net income about four-fold since 1929; and expansion is continuing, especially in the promising children's apparel field. The management is regarded as excellent, and the record makes that some-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
American Tel. & Tel.	May 31 quar.	$2.77	$1.22
Collins & Aikman	May 31 quar.	.65	.43
Copperweld Steel	6 mos. June 30	2.40	.68
General Bronze	6 mos. June 30	1.23	.67
General Electric	6 mos. June 30	1.89	1.48
General Time Instruments	24 weeks June 12	4.48	2.56
Hanna, M. A.	6 mos. June 30	3.64	2.74
Mathieson Chemical	June 30 quar.	1.24	.93
Southern New England Tel.	6 mos. June 30	4.40	2.07
Standard Steel Spring	June 30 quar.	.70	.40

thing more than a matter of opinion. Selling at about 5 times earnings and with favorable near term and long term prospects, the stock shapes up as a good buy for appreciation, especially if purchased in periods of general market weakness.

Philco

We have expressed the opinion here before that Philco probably would be one of the leaders in manufacture of television sets as it has long been in radio. Its television output in June reached an annual rate of over 200,000 sets; and the management is aiming at — and most likely will reach — an output rate of 400,000 a year by the end of 1948. It may be interesting to note that the national output in 1947 was only 180,000 sets. The industry-wide total for 1948 is estimated at about 700,000 units, and this may well jump to 1,500,000 units, or thereabouts, in 1949. Philco sales ($226.5 million last year) are well diversified between refrigerators, food freezers, air conditioners, radio - phonographs, radios,television sets and lesser miscellaneous items. There are two things which this column especially likes about Philco. First, the management is able and progressive, never inclined to stand pat on past achievement. For instance, it spent over $4,000,000 on research and engineering in 1947. Second, sizable amounts of the stock are owned by each of 15 directors, all of whom are company executives. The 1948 earnings probably will exceed last year's record $6.19 a share by a goodly margin. Dividends last year were $2.00 in cash and 5% in stock. The stock's range this year has been 45½-28 and it is around 39 at this writing. The 1946 bull market high was 47. A continuing better-than-average market performance is likely.

Movies

Speaking of television, one must wonder about the movies. This fast-growing new form of home entertainment must certainly promise to cut into film theatre patronage. The threat begins to become effective at the very time that the movie industry is beset with other problems, most notably the sharp curtailment in foreign revenues and the apparent necessity of divorcing film production from theatre ownership under fire of Government anti-trust procedure. It was well known that the earnings trend is adverse, yet the recent poor Loew's report shocked the market. The drastic economies being instituted in Hollywood may check this trend but significant profit improvement before 1949 is unlikely. Paramount might eventually get some offset out of television, as it is a large stockholder in Dumont Laboratories, but earnings of the latter are still rather modest and no dividends have been paid. The movie stocks are already seriously depressed. They may or may not have about discounted the worst. Certainly potentialities for appreciation, at least for a considerable time to come, must be rated as below average.

Confirmation

A fortnight ago this column took a mildly skeptical view of the prospect for a continuing residential building boom. At least some confirmatory evidence is now beginning to appear. Sales of some building materials are flattening out or easing off, indicating pretty well filled pipe lines and some sporadic overstocking of dealers. On an average, the housing situation is still tight but it is progressively becoming less so. According to a recently completed survey by the National Association of Real Estate Boards: in a fourth of the communities the supply of single-family houses has caught up with demand; apartments are in adequate supply in roughly one eighth of the communities, against almost none in the forepart of last year; and in nearly two thirds of the localities houses ten years old, or older, now are priced lower than they were a year ago. Residential building may well be at its peak, and rounding off. Volume could remain high for some additional months, then slump. The building stocks could be well down in the market before the published figures on contract awards, housing starts and sales-profits of materials manufactures become adverse.

Consumer Credit

Relative to disposable income, total consumer credit is still at a moderate level; and that part of it representing "buying on time" is still under the prewar peak even on an absolute basis. An entirely safe prediction is that it will expand further, that 1948 earnings of installment finance companies will be sharply higher than those of last year, and that 1949 earnings will improve on 1948. In the first 1948 quarter, Commercial Credit earned $1.51 a share, against 66 cents for the like 1947 period. With progressive improvement likely, profit for the full year might closely approach the prewar peak of $7.10 a share in 1937, despite increased bank competition in the financing field. The $2.60 dividend rate, which yields about 5.3% at the stocks current price, is subject to increase. From 1937 to 1943 dividends ranged between $5.50 and $3.00. This year CIT Financial will about double last year's profit of $2.03 a share and could easily increase its $2 dividend rate. The company is less advanced in its earnings recovery than Commercial Credit. Of the two stocks, the column prefers the latter.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1948	1947
Amalgamated Leather	6 mos. June 30	$ .59	$ .90
Devoe & Raynolds	6 mos. May 31	2.38	3.07
General Tire & Rubber	6 mos. May 31	2.46	4.06
Illinois Zinc	9 mos. June 30	.74	2.29
International Shoe	6 mos. May 31	2.04	2.42
Mead Corp.	24 weeks June 31	2.93	3.16
Public Service of N. H.	6 mos. June 30	1.06	1.53
Northern Pacific Ry.	5 mos. May 31	def. .08	1.11
St. Louis San Francisco Ry.	5 mos. May 31	3.07	3.32
Tampa Electric	12 mos. May 31	2.10	2.58

*Class A

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Continental Motors Corporation

Please advise on recent earnings, working capital and order backlog of Continental Motors Corporation.

D.B., Reno, Nevada

Continental Motors Corporation and subsidiaries for the six months ended April 30, 1948, subject to audit and year-end adjustment, show net profit of $1,724,-411, or 57c per share after provision for income taxes and income applicable to minority stockholders of Wisconsin Motor Corporation, whose financial results are consolidated for the first time. Sales for the six months were $57,-054,547, and net working capital on April 30, 1948, including cash of $8,893,819, was $19,830,210. Due to the difference heretofore in fiscal years of Continental Motors and its Wisconsin Motors subsidiary, comparative figures for the like period last year are not available.

In general, production has been on a more satisfactory basis since the present fiscal year began last November 1. Demand for Continental engines continues at a high level, resulting in maintenance of six-day week in most divisions, with some bottle neck departments operating seven days.

Shipments of automotive and industrial engies, which account for approximately 60 percent of Continental's sales, last year were 46 percent larger in the first seven months of the 1948 fiscal year than a year ago. Airplane engine shipments have started to improve recently, with May volume 63 percent ahead of April, and 40 percent in excess of the seven months' average. Marine engine shipments since January 1, 1948 have slightly exceeded those of a year ago. Wisconsin Motor shipments, which had been on a uniformly high level for many months, were 5 percent greater in the first seven months of the current year than in the like period last year.

Recently Continental has introduced its first war end product, a portable power source marketed under the trade name "Multi-Tool." This is a further step in the goal of broadening diversification of products. Company is participating in our national rearmament program, particularly the airplane engine division should benefit from the purchase of the light planes by the military services for training and other purposes. Unfilled orders of Continental Motors Corporation and consolidated subsidiaries amounted to approximately $80,000,000 on June 1, 1948 and therefore business volume is expected to continue at a high level throughout the balance of the current fiscal year.

U. S. Industrial Chemicals, Inc.

I hear that earnings of U. S. Industrial Chemicals, Inc. declined somewhat in the past fiscal year. Please advise the reason for this decline and also expansion plan program of the company.

B.M., Macon, Ga.

Sales of U. S. Industrial Chemicals, Inc., and subsidiaries during the fiscal year ended March 31, 1948, reached the record total of $73,287,210, an increase of $3,-581,061 from the preceding twelve months.

Net income for the past year, however, declined to $2,647,861, or $5.30 a common share, after restoration of $500,000 from the reserve for contingencies. In the previous fiscal year, net income was $3,589,139, or $7.19 a common share.

During the year, severe shortages of raw materials, notably molasses, methanol and phthalic anhydride, reduced the unit volume of sales below the previous year's level. The greater dollar volume of sales was the result of upward price adjustments and in many lines, necessitated by continued increases in the costs of raw materials and the attendant increases in the cost of production, and in selling and administrative expenses. The effort of the company to combat inflationary trends by absorbing these additional costs as they developed is evidenced by the reduced margin of gross profit and net earnings for the year, as compared with last year.

During the ensuing fiscal year, the company contemplates expenditures of about $7,000,000 for plant expansion. The major projects for 1948 include a new chemical plant at Brownsville, Texas, and a new storage and handling facilities at Garden City, Kansas, both to be constructed for the handling and conversion of the synthetic chemicals to be purchased under the company's contract with Stanolind Oil and Gas Company. Because of the present high level of building costs, all but the most essential construction has been deferred.

Keeping Abreast of Industrial and Company News

Western Union Telegraph Company has developed a facsimile telegraph sender and receiver which will greatly increase the speed of telegrams and cut operating costs. With the new device, the sender of a telegram may write his message in long hand or type it on sensitized paper; this is then fed into the sending machine which causes the receiving machine to create an exact pictorial reproduction of the message. One machine performs both functions. It enables messages to be sent from New York to San Francisco in ten minutes.

Discovery of a new use for sour-milk acid, which enables waste farm products to be put to work in the manufacture of plastics, has been reported to the **American Chemical Society.** This advance, besides providing a new outlet for agricultural wastes, will ease the drain on the heavily burdened petroleum chemicals industry, as the new materials will take the place of chemicals made from oils.

Before very long, the American housewife will be able to purchase everything from meat to furniture prepackaged, unhandled and factory fresh. Typical of the trend toward prepackaging is the transparent film which remains wrapped around foods even while they are being cooked. The wrapping also keeps the eater's hands clean and prevents any of the filling from dripping on his clothes, the **Shellmar Products Corporation,** maker of the bags, points out.

The **Reynolds Metals Company** calls attention to the fact that the aluminum industry is currently shipping more than two billion pounds a year. Since the aviation industry and the armed forces have taken comparatively little aluminum since the end of the war, the current record-breaking shipments are going into markets developed within the past two years or into uses which existed before the war. Today's shipments are more than seven times the average consumption before the war.

The **building industry** has constructed more than 250,000 new non-residential buildings during the last year, in addition to starting nearly 900,000 dwelling units of all kinds. Included in the total are 3,000 churches, 2,800 schools and libraries, 43,000 stores and warehouses, 13,000 factories and workshops, 3,200 office buildings, 6,000 public garages and automobile sales places, 145,000 private garages and sheds, 4,000 service stations, and nearly 800 hospitals and other institutional buildings.

A circular saw attachment recently introduced by **Graham-Paige Motors** for its rototiller farm machine can be used to fell trees, cut them into logs, and, with an accompanying saw table, saw them into cordwood length.

A new type of floor covering for automobiles that can be formed on one piece and used without binding has been developed by the **United States Rubber Company.** It is non-slip, and can be swept, vacuum cleaned or washed. Known as Velvomat, the material is available in various thicknesses, colors and patterns. Of great durability, it is believed that it can bring greater safety on inclined walkways, stairways and in lobbies, corridors and before elevators and other entrances.

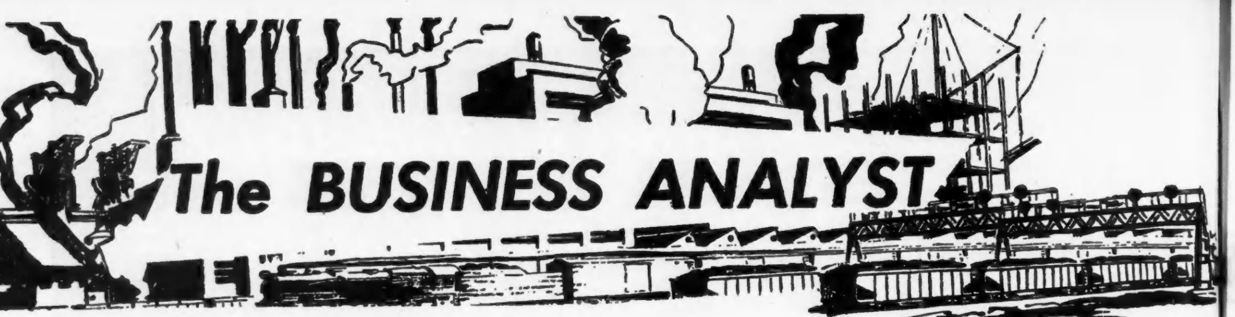
The **Bell Telephone System** has installed its 30 millionth telephone in the home of a purple heart veteran in Marshalltown, Iowa. This installation came 72 years after Alexander Graham Bell perfected his invention. It took the Bell system more than 45 years to attain its first 10 million telephones, not quite 20 years for the next 10 million, and less than 6 years for the third 10 million. There are now 36,500,000 telephones in the United States, 6,500,000 of which are served by the nation's independently-owned telephone companies.

A new "sacrificial" metal that rusts itself completely away to protect other metal from rust has been revealed by the **Dow Chemical Company.** The protection against rust is applied to all metal underground or under water. Pointing out that corrosion of such metal runs into billions of dollars yearly, the company states that new metal can plug much of the loss, since its base, magnesium, is claimed to be three times more potent in resisting rust than any other metal.

The **Southern Pacific Company** has ordered ninety-five Diesel-electric locomotives, costing about $25,000,000. Thirty 6,000 horsepower freight locomotives and forty 1,000-horsepower switch engines will be built by the electromotive division of the General Motors Corporation; fifteen 1,500-horsepower engines for use as switchers or on the main line will be constructed by the Baldwin Locomotive Works; and ten 70-ton switch engines will be built by the General Electric Company. Deliveries are expected to start by the end of this year.

The purchase of one of the largest corn and pea canneries in the mid-West has been announced by **Libby, McNeill & Libby.** The plant is at Rochester, Minnesota. This addition to the Libby chain of plants was made to meet the company's expanded requirements in corn, peas, and other vegetables. The Rochester area is regarded as one of the best in the U. S. for the growing of corn and peas.

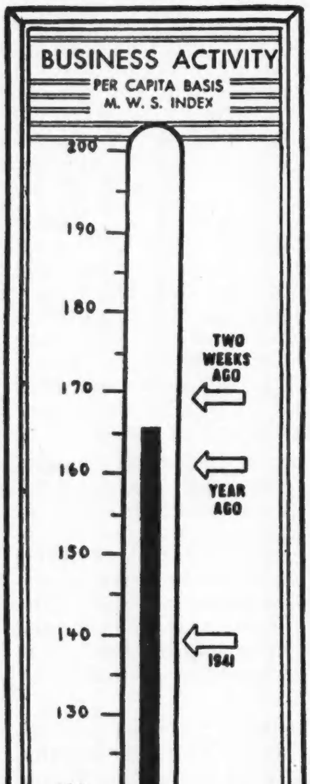
In the thirty months since the end of the war, the **automobile industry** has built thirty-four new manufacturing and assembly plants, all of which were major projects according to the Automobile Manufacturers Association. There are now 113 new assembly plants in seventy-seven cities of twenty-four states from coast to coast and border to border, with more plants due in the next few years. Economizing on freight costs is one of the main reasons for this broadening out.



What's Ahead for Business?

By E. K. A.

In our last issue, it was stated in this column that steel had once more become a key factor in the outlook. How much so, has meanwhile become apparent. Basic steel prices have been lifted between $9 and $10 a ton. Based on output of upwards of 60 million tons of finished steel per year, this could add half a billion dollars to steel users' annual costs. Additionally, the impact of higher basic prices is greatly intensified for many steel buyers because of the recent change in steel pricing methods. In extreme cases, the increase on that score alone runs from $5 to $10 a ton. Undoubtedly, the effect of higher steel products prices on consumer costs will be immediate and severe.



Also, there may be criticism and political repercussions. More than usual interest may be attached to second quarter steel company earnings. But above all, inflation has been greatly stimulated, a topic that the reconvened Congress is likely to discuss at some length. Already one hears of a new twist on price controls, reportedly bruited about by presidential advisers: The automatic imposition of an excess profits tax on any major producer who raises his prices.

Discussed as an alternative to resurrection of unpopular price ceilings, this at present is no more than an idea, and probably a highly impractical one. Yet it explains why businessmen have been unpleasantly surprised by the President's action of recalling Congress. It spells uncertainty, and uncertainty is the enemy of stability, quite apart from the unsettling effects of supercharged political bickering over vital economic issues.

Moreover, Democratic talk about reimposition of price controls, in one form or another, is no real incentive to sustained efforts to hold the price line. For this reason alone, for instance, manufacturers will be quick in raising selling prices to offset higher steel costs. And that in turn is bound to intensify consumer price resistance, already quite noticeable even in durable goods lines.

Clouds on the Horizon

The consumer squeeze stemming from the third round wage-price spiral is only one cloud on the business horizon. Others have lately appeared, no bigger than a hand, to be true, but jointly of sufficient potentiality to temper optimism over the intermediate term business outlook. Hence they bear watching, though they will hardly become important until next year.

One is that capital spending by industry is definitely slowing down. The sharp postwar rise of such expenditures has flattened out and current spending plans are below estimates and indications available earlier this year. Other misgivings revolve around politics. A Republican administration, if we'll have one next year, must at least to some extent move in the direction of Government economy, the very thing the Republicans have been preaching so long. If Federal spending is cut even modestly, and such curtailment coincides with declining capital expansion and mounting consumer price resistance, it would not be exactly healthy for our present boom, though it might otherwise be a good thing. It is of course difficult to visualize any substantial paring of Government expenditures but something along these lines might eventuate.

War is Bearish

Another thought injecting caution is that if the Berlin crisis should ultimately lead to war, it would hardly be bullish for business. No future war can be bullish, from whatever angle such a contingency, or tragedy, is viewed. It would mean complete controls over business, stiff taxes, a wholly regimented economy—not a chance of repetition of high wartime corporate profits. In other words, war would be bearish, thus anything tending towards war such as deterioration of the Berlin situation is apt to create caution, if not jitters.

Thoughts like these doubtless figured prominently in the latest stock market break. While the market may rebound, they will linger in the minds of businessmen trying to appraise the future, despite the fact that business as a whole promises to boom along at the present high rate for at least the remainder of the year.

The Business Analyst

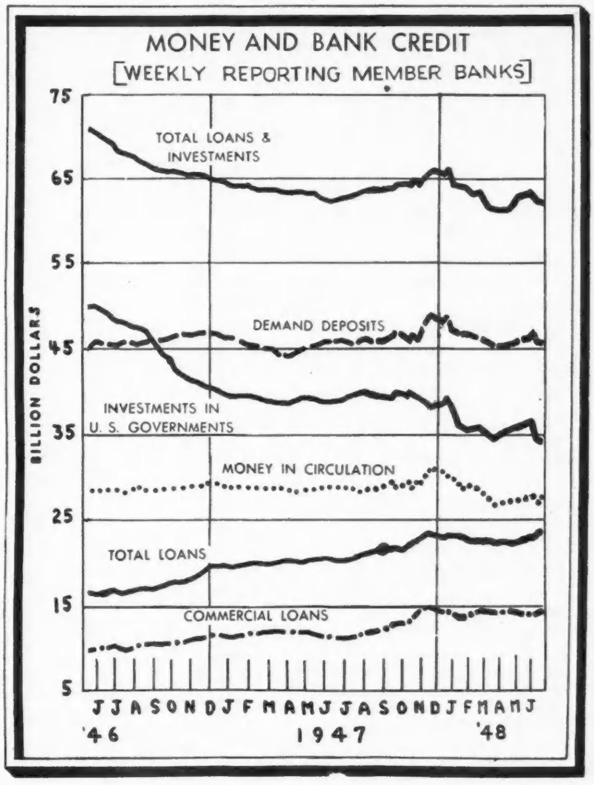
HIGHLIGHTS

MONEY AND CREDIT—After holding for nine weeks within a narrow trading range around the recovery highs, common stock averages during the week ended July 16 broke to the lowest level in 10 weeks. Traders, and even investors, were perturbed by the Berlin crisis and the surprise call for an extra session of Congress. Bonds and bank stocks generally registered relatively minor declines. Treasury Secretary Snyder urges the banks to step up their voluntary efforts to prevent unsound expansion of credit. President Truman is expected to ask the reconvened 80th Congress to authorize Government controls over inflation.

TRADE—Department store sales in the fortnight ended June 10 were 12% above last year, compared with a cumulative gain of only 7% for the year to date. Thus far there is little factual evidence of the much publicized prospects of consumer resistance to high and rising prices; though pre-war seasonal patterns have returned in a few soft goods industries.

INDUSTRY—Business activity during the fortnight ended June 10 dipped about 1½% to a level slightly less than 6% above last year. Construction activity holds at boom levels; but building permits are falling off owing to tightness in mortgage money which Congress may do something about if the atmospheric and political heat in Washington does not force a too speedy adjournment. Expenditures for new plant and equipment during the third quarter are expected to run about 10% ahead of last year, which does not indicate an early business depression. Rising wages and other costs are forcing another eruption of prices. Farm products, however, are not pacing the price advance, as they did during the war and early post-war period. The most notable price increases this time are in such products as coal, steel, rayon and cigarettes. To raise or not to raise prices is a knotty problem not yet solved by the crude oil and non-ferrous metals industries. Civilian employment has risen to a new all-time high with the influx of students into the labor market; though agricultural employment, thanks to rapid post-war mechanization of farming, is well below last year.

COMMODITIES—Farm products prices eased off somewhat during the past fortnight under the influence of favorable weather conditions in Europe and prospects of record, or near record, yields at home. For the most part, spot prices were weaker than futures which, in a number of instances, are already bumping Government support levels.



Summer vacations and the strike at captive coal mines, since called off, were mainly responsible for a dip of 1½% in the Nation's physical volume of **Business Activity** during the fortnight ended June 10, to a level slightly less than 6% above the like time last year—about the same increase as the first half averaged.

* * *

This publication's **Business Index** for June rose to 190.9% of the 1935-9 average, from189.3 in May, indicating an increase of 6.5% over June, 1947. Average for the second quarter was 188.3, compared with 188.2 for the first quarter, and 179.2 in the second quarter of last year. Average for the first half of the current year was 188.2, against last year's 180.7 in the second half and 178.0 for the first half.

* * *

On a **Per Capita Basis,** our Business Index in June rose to 169.1% of the 1935-9 average, from 168.4 in May, showing an increase of 7.8 points over June, 1947. Second quarter averaged 167.3, compared with 167.5 for the first quarter and 160.6 for last year's second quarter. Average for the first half was 167.4, against last year's 162.5 in the second half and 161.3 for the first half.

* * *

Department Store Sales in the week ended July 3 spurted to 28% above the like week last year, which had one less trading day on account of the July 4 holiday. For the reverse reason, sales in the week ended July 10 dipped to 4% below last year. Thus the average increase for two weeks was 12%, compared with a cumulative gain of only 7% for the year to date.

* * *

Department store **Inventories** at the end of May were 17% higher in retail value than a year earlier and 95% above the 1935-9 average. Since retail prices at the end of May averaged 93% higher than during the 1935-9 period, but were only 9% above a year earlier, it seems that the actual quantity of merchandise in stock now is about the same as pre-war, but something over 7% greater than a year ago.

* * *

Expansion of inventories is not always indicative of **Consumer Resistance.** It may also point to inventory speculation in times of rising prices, or a miscalculation of what the

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	June	1.12	1.04	1.50	1.55
Cumulative from mid-1940	June	369.2	368.1	356.4	13.8
FEDERAL GROSS DEBT—$b	July 14	252.8	251.9	258.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	July 7	46.2	46.4	46.5	26.1
Currency in Circulation	July 14	28.1	27.9	28.3	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	July 7	8.62	8.68	7.46	4.26
93 Other Centers—$b	July 7	12.24	12.29	10.90	7.60
PERSONAL INCOMES—$b (cd3)	April	209.1	207.7	189.4	102.0
Salaries and Wages	April	127.6	128.2	117.7	66.2
Proprietors' Incomes	April	53.7	51.5	46.5	22.8
Interest and Dividends	April	16.1	16.0	14.3	10.0
Transfer Payments	April	11.7	12.0	10.9	3.0
(INCOME FROM AGRICULTURE)	April	24.5	22.9	21.1	10.1
CIVILIAN EMPLOYMENT—m (cb)	June	61.3	58.7	60.1	51.8
Agricultural Employment (cb)	June	9.4	7.9	10.4	8.8
Employees, Manufacturing (lb)	May	15.8	15.9	15.6	13.8
Employees, Government (lb)	May	5.6	5.6	5.5	4.6
UNEMPLOYMENT—m (cb)	June	2.2	1.8	2.6	3.8
FACTORY EMPLOYMENT (1b4)	May	155	156	156	47
Durable Goods	May	183	185	182	175
Non-Durable Goods	May	133	133	132	123
FACTORY PAYROLLS (1b4)	April	346	358	318	98
FACTORY HOURS & WAGES (1b)					
Weekly Hours	May	39.9	40.0	40.1	40.3
Hourly Wage (cents)	May	129.9	129.1	120.7	78.1
Weekly Wage ($)	May	51.89	51.58	48.44	32.79
PRICES—Wholesale (1b2)	July 10	166.8	166.7	148.3	92.5
Retail (cdlb)	April	190.8	188.6	177.2	116.2
COST OF LIVING (1b3)	May	170.5	169.3	156.0	110.2
Food	May	210.9	207.9	187.6	113.1
Clothing	May	197.5	196.4	185.0	113.8
Rent	May	116.5	116.3	109.2	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	May	10.67	10.61	10.02	4.72
Durable Goods	May	2.69	2.83	2.44	1.14
Non-Durable Goods	May	7.98	7.78	7.58	3.58
Dep't Store Sales (mrb)	May	0.82	0.80	0.77	0.49
Retail Sales Credit, End Mo. (rb2)	May	6.53	6.39	4.75	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	April	245	257	241	181
Durable Goods	April	296	314	279	221
Non-Durable Goods	April	214	223	219	157
Shipments (cd2)—Total	April	321	327	299	184
Durable Goods	April	350	365	326	223
Non-Durable Goods	April	306	306	269	158
BUSNESS INVENTORIES, End Mo.					
Total—$b (cd)	April	51.5	51.6	44.6	26.7
Manufacturers'	April	29.1	29.1	25.8	15.2
Wholesalers'	April	8.1	8.2	6.8	4.3
Retailers'	April	14.3	14.3	12.0	7.2
Dept. Store Stocks (mrb)	April	2.41	2.37	2.06	1.4
BUSINESS ACTIVITY—1—pc	July 10	166.9	169.1	160.6	141.8
(M. W. S.)—1—np	July 10	189.0	190.9	178.5	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 449)

demand for goods will be several months after orders are placed. Of recent months, however, scattered consumer resistance to rising prices has been developing, particularly in certain lines of soft goods. Yet rising costs have just forced an additional advance in **Rayon** prices.

* * *

On the other hand, pick-up has been noted in recent months in demand for **Woolen Goods.** While production during the first quarter was 7% smaller than for the like period last year, the backlog of unfilled orders at the opening of the second quarter was 20% larger than a year earlier.

* * *

During a period of prosperity such as we are now enjoying, there is no such thing as an overall lack of buying power. A little recognized fact is that the very process of production generates, over a sufficiently wide area and period of time, enough purchasing power to absorb all goods and services produced. At such times, the much publicized scattered instances of consumer resistance merely indicate a more or less transient **Shifting of Demand** from one line of goods to another.

* * *

A typical example of this is seen in the **Radio-Television** field. Radio makers expect to turn out 25% fewer receiving sets this year than last, and even 6% fewer than in 1946. This is the result of a shifting of demand to television sets, of which 600,000 to 750,000 are expected to be produced this year and perhaps double this number next year.

* * *

Along the industrial front, **Price Advances,** actual and prospective, are making headlines. Higher freight rates, wages and other costs explain why coal and steel prices have already been upped again. Trade circles would not be surprised if wholesale prices for cigarettes are advanced before long. At present they are only 1% higher than in 1937; though taxes have caused retail prices to rise.

* * *

The problem of whether to raise or not to raise is rather perplexing in the case of **Crude Oil.** Here wages are not a major component of cost. It is merely a question of what the traffic, or Congress, will bear. Up to present writing, demand for crude has been so urgent that smaller independents are paying premiums. But for major refiners to hike prices again, while profits are running 100% ahead of last year, might invite Government controls. To be sure, prices for refined products are already being lifted; but in this instance, higher costs enter the picture prominently.

* * *

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
INDUSTRIAL PROD.—1—np (rb)	April	192	188	185	174
Mining	April	163	147	151	133
Durable Goods, Mfr.	April	222	217	218	220
Non-Durable Goods, Mfr.	April	178	177	170	151
CARLOADINGS—t—Total	July 10	756	757	807	833
Manufactures & Miscellaneous	July 10	315	382	370	379
Mdse. L. C. L.	July 10	84	105	110	156
Grain	July 10	63	61	70	43
ELEC. POWER Output (Kw.H.)m	July 10	4,760	5,166	4,530	3,267
SOFT COAL, Prod. (st) m	July 10	10.1	3.7	6.1	10.8
Cumulative from Jan. 1	July 10	295	285	318	446
Stocks, End. Mo.	May	40.0	34.4	50.2	61.8
PETROLEUM—(bbls.) m					
Crude Ooupur, Daily	July 10	5.5	5.5	5.0	4.1
Gasoline Stocks	July 10	103	104	88	86
Fuel Oil Stocks	July 10	62	61	51	94
Heating Oil Stocks	July 10	51	48	43	55
LUMBER, Prod. (bd. ft.) m	July 10	342	435	327	632
Stocks, End Mo. (bd. ft.) b	April	5.8	5.6	5.2	12.6
STEEL INGOT PROD. (st.) m	June	7.26	7.56	6.95	6.96
Cumulative from Jan. 1	June	43.1	35.8	42.3	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	July 15	127	169	104	94
Cumulative from Jan. 1	July 15	3.789	3,662	2,961	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	July 10	124	216	139	165
Motor Vehicles, Factory Sales—t	May	338	438	383	352
Pneumatic Casings Production—m	April	6.6	6.9	8.3	4.0
Natural Rubber Consumption (lt)t	May	52.7	50.6	43.0	54.3
Do., Synthetic Rubber	May	35.4	34.6	48.7	0.5
Anthracite Coal Production (st)m	May	4.9	4.4	4.5	3.8

PRESENT POSITION AND OUTLOOK

The business world is not too pleased with the surprise call for an **Extra Session** of Congress. At best the summer season, particularly in an election year, is not conducive to well-thought-out legislation, and the political heat generated by President Truman's openly avowed contempt for Congress in general, and Republicans in particular, is likely to brew a seething hodgepodge of fillibusters, motions to adjourn, ambiguous laws and vetoes.

* * *

Though time will be limited before the reconvened 80th Congress again adjourns, there is a possibility that some action may be taken to relieve the recently tightening supply of mortgage money for new **Dwellings.** Otherwise the number of new private living quarters started this year may fall short of earlier expectations. The situation is fully discussed in the July 17 issue of The Magazine of Wall Street.

* * *

Meanwhile, the exceptionally high rate at which new housing is being completed is helping to sustain the market for new **Furniture.**

* * *

A joint survey conducted by the SEC and the Commerce Department indicates that about $4.6 billion will be spent during the third quarter for **New Plant and Equipment,** a 10% increase over last year.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

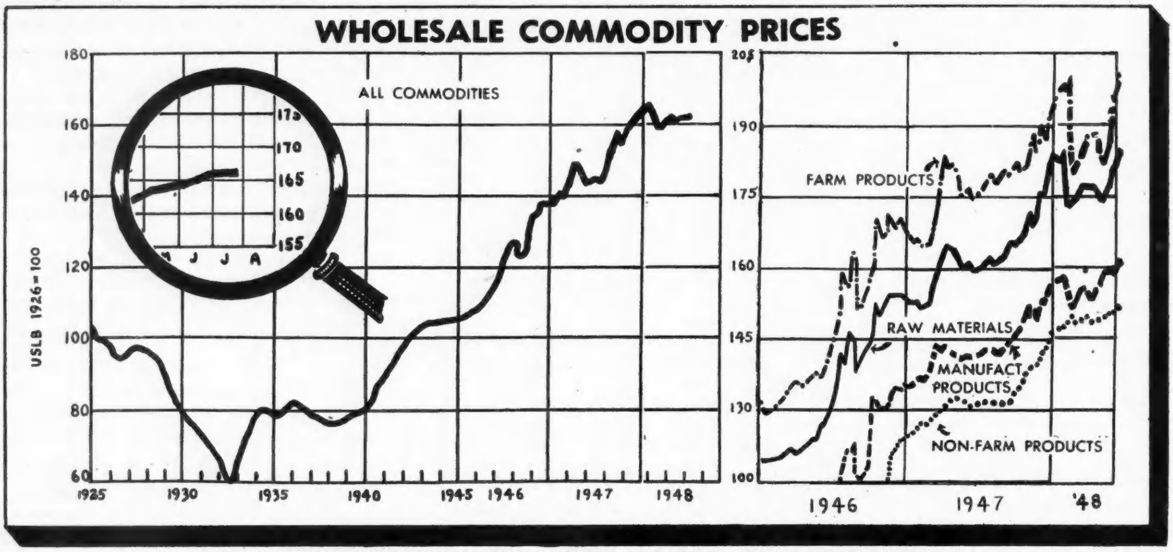
No. of Issues (1925 Close—100)	1948 Indexes High	Low	July 9	July 16
312 COMBINED AVERAGE	151.9	119.0	150.8	144.8
4 Agricultural Implements	240.1	178.8	240.1B	230.0
11 Aircraft (1927 Cl.—100)	191.1	134.3	183.5	185.1
6 Air Lines (1934 Cl.—100)	519.0	428.1	448.8	428.1a
6 Amusement	107.0	78.7	89.0	82.4
13 Automobile Accessories	223.5	171.1	218.8	208.1
12 Automobiles	41.3	31.4	40.0	37.1
3 Baking (1926 Cl.—100)	21.2	16.4	21.1	21.2A
3 Business Machines	296.1	224.7	289.9	279.5
2 Bus Lines (1926 Cl.—100)	168.5	133.4	165.3	162.6
5 Chemicals	267.0	221.6	262.9	252.4
2 Coal Mining	26.9	14.7	26.9B	25.3
4 Communication	56.3	42.3	53.3	50.5
14 Construction	71.5	56.6	68.6	65.2
7 Containers	345.9	287.1	316.8	306.5
9 Copper & Brass	119.0	92.0	116.2	113.1
2 Dairy Products	60.2	50.7	60.1	58.6
5 Department Stores	71.8	53.9	67.2	64.2
6 Drugs & Toilet Articles	184.4	149.8	173.2	167.4
2 Finance Companies	268.3	199.4	268.3B	266.5
7 Food Brands	177.6	152.8	175.8	171.9
2 Food Stores	67.5	59.7	64.0	62.7
3 Furniture	88.3	70.9	88.0	79.5
3 Gold Mining	772.7	663.0	687.3	680.4

(Nov. 14, 1936, Cl.—100)	High	Low	July 9	July 16
100 HIGH PRICED STOCKS	91.84	75.27	90.84	87.79
100 LOW PRICED STOCKS	182.86	135.10	181.03	173.84
6 Investment Trusts	72.6	50.0	68.6	65.0
3 Liquor (1927 Cl.—100)	842.7	637.7	748.5	749.3
9 Machinery	179.5	136.8	169.6	161.4
3 Mail Order	125.6	89.8	116.8	109.3
3 Meat Packing	112.7	92.0	106.1	102.8
13 Metals, non-Ferrous	188.5	138.0	180.3	176.6
4 Paper	48.7	34.1	45.6	44.1
24 Petroleum	301.0	199.5	298.4	180.3
19 Public Utilities	124.9	97.8	124.1	119.1
5 Radio (1927 Cl.—100)	30.6	17.8	30.6B	28.2
8 Railroad Equipment	66.7	52.9	65.0	61.1
24 Railroads	30.3	20.5	30.3B	29.0
3 Realty	27.1	21.1	25.3	24.4
2 Shipbuilding	140.5	102.8	129.0	127.1
3 Soft Drinks	516.5	396.5	400.7	396.5c
14 Steel & Iron	122.0	96.2	122.0B	116.4
3 Sugar	54.7	44.8	52.3	51.9
2 Sulphur	281.9	206.6	281.9B	272.7
5 Textiles	170.5	117.9	166.3	161.4
3 Tires & Rubber	33.6	27.5	33.1	32.0
6 Tobacco	69.4	62.4	69.0	67.0
2 Variety Stores	327.5	286.9	324.3	312.8
17 Unclassified (1947 Cl.—100)	109.9	90.0	109.3	107.0

New HIGH since: A—1947; B—1946. New LOW since: a—1947; c—1945.

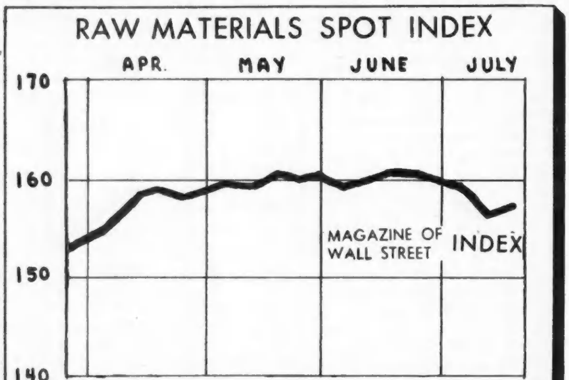
Trend of Commodities

Continued favorable weather conditions in Europe and prospects of record, or near record, crops at home led to somewhat easier prices for most farm products during the past fortnight. For the most part, futures were weaker than spot prices; and a number of commodities are bumping Government support levels. Imported silk is the only basic commodity, however, that is now cheaper than pre-war. The Japanese silk growers have no votes in this country. But low prices are not encouraging production. In the first six months of the current year we imported only 29,000 bales, against 450,000 for calendar 1941. Obviously silk is no longer a formidable competitor of rayon, as it was in pre-war days. Crops are already coming to market in such floods that freight car shortages and lack of elevator space have compelled the railroads to clamp embargoes upon further shipments to a number of terminal points. Agriculture Department estimates indicate a record corn crop this season and the second biggest wheat yield in our history. Total harvesting of wheat, corn, oats and barley this year will reach the unprecedented total of 6.3 billion bushels. Another harvest like that next year would dump large surpluses into Uncle Sam's supporting lap. Taxes taken from the consumer's dollar would pay for it all. The Agriculture Department estimates that European production of bread grains this year, outside of Russia, will be 35% larger than last year, though still 13% under the 1935-9 average. Meanwhile population over there has been growing, despite heavy war casualties. Lower feed prices are expected to stimulate livestock feeding later in the year, and so lead to somewhat lower prices for meat by early 1949. Meanwhile look for agitation to reinstate meat rationing.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

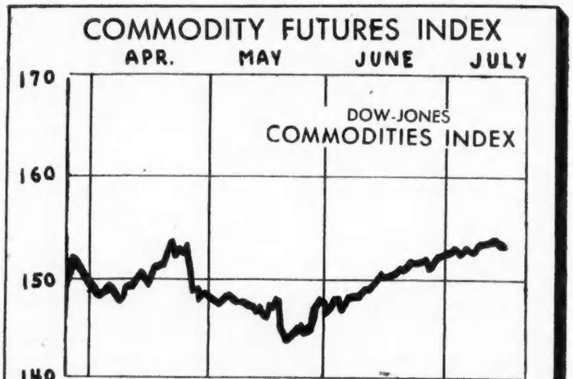
	Date July 19	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	322.8	328.1	330.5	321.6	349.4	305.1	156.9
11 Imported Commodities	290.5	287.5	288.8	272.3	295.1	271.7	157.5
17 Domestic Commodities	345.7	357.4	363.0	358.2	389.8	328.8	156.6
7 Domestic Agriculture	382.1	383.4	399.7	373.7	421.0	373.1	163.9
12 Foodstuffs	401.7	420.1	422.5	401.5	448.0	365.2	169.2
16 Raw Industrials	275.3	274.6	277.1	271.5	285.8	266.3	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1948	1947	1945	1943	1941	1939	1938	1937
High	162.2	164.0	95.8	92.9	85.7	78.3	65.8	93.8
Low	149.2	126.4	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1948	1947	1945	1943	1941	1939	1938	1937
High	168.83	175.65	106.41	96.57	84.60	64.67	54.95	82.44
Low	144.05	117.14	93.90	88.45	55.45	46.59	45.03	52.03

The Case Against Subsidies

(*Continued from page* 427)

now than city people are able to stand a continuation of present food costs. All the more deplorable is it that at a time when inflationary forces are again on the move, Government measures are interposed to halt any counter-movement. All the more absurd to raise production incentives in the face of impending surpluses.

Farm prosperity is a desirable goal, both for the farmers and for business, but it should not be sought at the expense of the consumer group and on a basis contrary to sound economic principles. And our present farm program, its under-lying principles of one-sided and perpetual subsidation, are far from sound. Unless revamped, it is bound to break down again just as it broke down before the war. At the outset, it was not created to assure the farmer a profit, but to limit his losses, to act as a sort of stop-loss order. But actually its provisions worked as production incentives—without adequate production controls. Whether there was a market or not, the farmer planted big crops and dumped them on the Government with the latter holding the bag. As one shrewd farmer put it: "We are individualizing the farmer's profits and socializing his losses." This is all too true.

No other privileged group receives such tender care. Being well organized and politically powerful, the farmer can and does push his demands, virtually certain that none of the major political parties will allow itself to be outdone by the other. This has cost the taxpayer billions in the past, and unless changed will cost more billions in the future. Yet in the end, it will solve nothing.

Price supports take the form of outright purchases, or of loans to farmers with farm products as collateral. Either way the Government in the past has found itself burdened with huge hoards of commodities for which it had paid more than any private dealer was willing to offer. The accident of war enabled it to unload the large stocks it had accumulated in this fashion. Since the war, with the world short of food and fibre, price guarantees remained largely inoperative. But now, with demand and supply returning to normal, the excessively high floors provided for farm prices again point to large future surpluses and heavy drains on the taxpayer to maintain fictitious values.

The basic fallacy of such a system is readily recognized by all who want to see it. The fundamental idea behind parity support —as now understood—is to assure farm prosperity. If the farmer gets higher prices, it is argued, he can buy more goods from industry and thus keep business and employment at high levels. Indeed a worthy goal, but everything depends on how higher farm prices are brought about. If by Government subsidation, farmers do get increased purchasing power. But the consumer, the industrial worker, has to pay more for his food, and also make up the subsidies in higher taxes. His purchasing power is correspondingly reduced. On balance, industry gains nothing except a shift in markets and sales potentials.

Works One Way Only

And strangely enough, farm subsidies work strictly one way. If farm prices go above parity, or are forced there by Government policies, the farm bloc does not offer, or is called upon, to bring them down to parity, nor are farmers expected out of the excess prices received to repay the subsidies previously paid them by the Government. It would be a logical thing, and if insisted upon, farmers today would be substantial contributors to the Treasury. But the system works only one way.

Some of the more sophisticated defenders of the parity price system freely admit the unsoundness of the underlying economic arguments; that parity price support is merely a special privilege and an imposition on the consumer. But, they counter, our tariff in turn is an imposition on the farmer who because of it has to pay higher prices for the industrial goods he buys. Parity prices, they argue, are the farmer's equivalent of the tariff; they even things up.

This is not without truth. Protective tariffs have hurt the farmer not only because they raise the prices on industrial goods but because they tend to reduce American farm exports since they prevent foreign nations from accumulating needed dollar exchange to buy American farm products. Often, too, they have provoked retaliatory tariffs in other countries. But protective tariffs hurt the urban consumer as much as the farmer, apart from the fact that relatively few industries enjoy tariff protection. The city consumer thus is hit twice because on top of it, he has to compensate the farmer and his purchasing power is thereby reduced all the more.

The entire problem, in short, cannot be solved by protecting or subsidizing everybody, and by saddling everyone with the costs of the other's protection. A far better approach would be to end both the parity price system and protective tariffs.

Tariff Evils

The evils of protective tariffs, if carried to excess as frequently done in our history, are sufficiently known; they far outdo whatever may be gained by them for privileged groups or industries. The same is true of efforts to "stabilize" commodities. Attempts to lift prices of certain commodities permanently above their natural market levels have failed so often and so patently, if not disastrously, that no amount of argument in favor of this practice can hide its shortcomings. In the end, some one must pay, and often pay dearly; usually the taxpayer, be he consumer, businessman or farmer. One need only recall our attempts to stabilize cotton, resulting in the piling up of a whole year's crop in storage and, at the same time, the stimulation of enormous growth of cotton in competing countries, thereby destroying our own export markets.

Also, when price supports are tied in with restriction schemes to give the farmer more for restricting production or to give him the same amount for artificially reduced output, it is hardly different from forcing consumers or taxpayers to pay people for doing nothing at all. The beneficiaries of such schemes obtain purchasing power, but someone else loses it. And without forced restriction of output, price supports act purely as production incentives. Sooner or later, unsold surpluses of overpriced commodities pile up until their markets ultimately collapse far more than if there had been no control program. We have seen

this happen in the past, and it may happen again unless sounder principles prevail.

There is another aspect to the problem, no less important. When prices are controlled, economic freedom is restricted. And when economic freedom is unduly limited, political freedom is usually endangered. This too, we have seen happen.

All of which goes to show that subsidies in whatever form will seldom if ever do any lasting good except to privileged groups. Yet the cry for subsidies from various pressure groups, or for strictly political purposes, never ends. Right now we are subsidizing housing at a rate that is bound to spell ultimate trouble. In doing so, we are not only subsidizing housing but also inflation, quite apart from the fact that it furnishes great opportunity for patronage and political favoritism.

Housing Subsidies

Public housing today means subsidized housing which rents for less than its market value. Some one has to pay the difference—the taxpayer. And strangely, the low income earners who are to benefit from the public housing program are not always the recipients of such support, nor can we hope to provide cheap housing for all of them. If we were to attempt it, building costs would further skyrocket and the taxpayers would go broke. The simple fact is that public housing cannot remove the inequities in the housing situation but creates new ones and tends to make impossible a lasting solution of the housing problem. In the end it would mean fewer homes for those who do not qualify for subsidation, and measurably higher charges on those fewer homes.

This inescapable conclusion calls for careful study and revision of our public housing policies, just as our farm policy needs a thorough revamping. Unfortunately, high farm price supports at 90% of parity, that is extension of wartime supports, have been asured for another eighteen months, with the implication that food costs will not go down much during this period. It is to be hoped that in the interim, Congress will not be swayed from its present intention to reduce support levels thereafter. The Senate has proposed a long range program setting flexible supports with loans between 60% and 90% of parity, at the discretion of the Secretary of Agriculture.

These levels are still too high and compare with former New Deal levels ranging between 52% and 75% which were mandatory only for six basic crops. At present, virtually all farm products have support programs, either mandatory or discretionary. Such largesse cannot continue without serious consequences. Above all, the outmoded parity formula is in dire need of revision. It is unfortunate that any ultimate solution cannot be strictly based on economic soundness but must compromise between what is economically sound and what is politically desirable or acceptable.

ERP in Operation—Objectives and Performance

(*Continued from page* 422)

tries evening off, with absence of a clear-cut agreement with Britain about the use of ECA-dollars, possibly leading to renewed friction, and with France again in the throes of approaching currency difficulties as attested by renewed weakness of the French franc which is severely upsetting French financial plans.

Domestically, ECA's impact will continue to be felt most in the field of foodstuffs and "expendable" goods such as oil, coal, certain metals, tobacco, etc. Orders for capital goods including the various types of machinery will be slow in coming through, depending in part on conclusion of loan negotiations still in the initial stages.

Rebuilding of Japanese Trade — Under U. S. Occupation

(*Continued from page* 433)

Much will depend upon how Japan manages its manifold problems, particularly the arresting of inflation and the stabilization of the yen. At the present time, trade between Japan and foreign countries is subject to interference by the Government and the occupation authorities, with the result that the amount of red tape is terrifying. All Japanese exports are divided into some 200 categories and each of them is assigned a special dollar-yen exchange rate, varying from time to time. In the case of some products, the exchange rate has been as low as 80 yen to the dollar, as will be seen from the accompanying table. On the other hand, there are products which have an assigned exchange rate of 900

yen to the dollar.

The objective of this multiple rate arrangement is to encourage exports at all cost. But the multiple rate system has its disadvantages. It treats efficient producers in the same way as inefficient producers, and contributes to inflation. Exporters who are given a high conversion rate for the dollar can pay higher wages and thus contribute to the spiraling of wages and costs. The system also promotes graft and bureaucracy.

Conversely, as the Oriental Economist points out, "a single exchange rate will benefit the economy by discouraging uneconomical enterprise, by exhorting competition, by linking the Japanese economy with that of other countries on a rational basis, and by stabilizing the wage level."

Hence the sooner the single yen-dollar conversion rate is decided upon, the better for the restoration of foreign trade and the promotion of production in Japan.

Outlook for Sugar Industry

(*Continued from page* 439)

conditions of the first five months, which have now been somewhat relieved by rising prices. World competition has not yet reached the disastrous stage which may be envisaged when Europe and the Orient get back into capacity production of beet and cane sugar respectively. Yet leading Cuban sugar stocks are currently selling at only 2 or 3 times their record earnings for the fiscal year ended last September.

Cuban producers may be able to market some of their surplus through ECA, for sugar to aid undernourished Europeans costs less per calory than flour or rice. Also, the Cuban companies have made notable progress in recent years in rehabilitating their capital structures, finances and plants. While labor demands might cut into earnings, the companies should not do too badly. A general strike of Cuban sugar workers scheduled to begin July 1 was averted at the last minute. Sugar workers had threatened to strike over a cut in wages during the idle season (wages are normally geared to prices during this period.) A breathing spell has now been established until November 30, when a Government Commission will report on living conditions. This issue of wages vs. prices may become serious in future, in view of the fact that the Cuban Government continued the 1947 wage scale (based on previous sugar prices) into 1948.

Generally speaking, Cuban producers face the problem of moving another large crop and lower prices point to declines in sales as well as net profits, the latter further affected by continuing high labor costs and possible inventory losses.

Puerto Rican Break-up of Estates

As to the Puerto Rican companies, it is difficult to generalize because of the special conditions prevailing in the Island, with respect to the break-up of plantations and sale of land to the Government. Each company must be studied "on its own" with reference to the progress of litigation, timing of special distributions to stockholders, etc. For the time being these factors seem to outweigh marketwise the question of earnings.

American beet sugar producers are not doing as well this year as last. Wages set for the industry last February were based on a price estimate of $4.50 per ton but up to the end of June prices had dropped $1 to $1.50 per ton. Hence growers in the West converted some 10% of acreage from beets to potatoes and bean cultivation. Strike closings of two cane refinery plants have, however, given temporary aid to Great Western and other beet companies.

The beet sugar industry was de-controlled last year and earnings in the latest fiscal year (which ends in February-March for most companies) were good. Last year the Government, through the Commodity Credit Corporation, guaranteed an average price of 8.10¢ a pound, but this year the support has been withdrawn. Because of this withdrawal, the companies have gone back to their pre-war type of contract under which beets are purchased from farmers on the basis of sugar content and prices realized. It appears unlikely that the industry will meet its quota this year.

However, beet sugar stocks will continue, as in the past, less "cyclical" or speculative than the Cuban and Puerto Rican issues. One reason for this is the fact that the industry is becoming more mechanized, and less dependent on cheap "stoop" labor.

It is hoped by the industry that eventually it may be able to compete with the Cuban cane industry on almost an equal basis, especially if Cuba continues its present high wage scale.

Refiners (whose stocks are somewhat more stable than those of the island producers) were shocked by the Supreme Court decision of early May, which held that a group of California beet sugar growers had cause of action against local refiners who had agreed among themselves on uniform prices to be paid. Justice Rutledge made this the occasion for a scathing attack on monopoly throughout the sugar industry. Hence refinery company stocks, which come closest to investment status of any of the four groups named above, now appear to be under a political cloud—though a turn to the right in November might nullify the action of a Supreme Court which is still somewhat "New Dealish" in its philosophy.

Because of the element of political control, sugar shares often do not conform to action of the general market. At current prices, the stocks of the sugar group are moderately priced in relation to prospective earnings, but the possibility of further declines in sugar prices suggests that the recent indifferent market action will continue over the nearer term.

Shares of the leading refiners are in relatively best position, followed by those of the domestic beet sugar producers, though lower earnings are indicated this year. Those of Cuban and Puerto Rican producers, despite high dividend yields on basis of most recent payments, lack outstanding appeal in view of longer term market and operating uncertainties.

Banks At Mid-Year

(*Continued from page* 441)

probably would now be offering additional issues of capital stock to bolster their resources, but poor market conditions appear to have deterred action along these lines. Eventually a number of them will have to come to this and judging from past experience, such steps may result in the issuance of subscription rights that may prove valuable to shareholders.

Meanwhile the fundamental position of the nation's banks remains exceptionally sound, due to the high proportion of Government securities in their portfolios, while conservative dividend policies are making possible a continuous upbuilding of surplus accounts through retained earnings. Despite the now changing scene in the field of operations, dividends of the stronger institutions are exceptionally well secured and have lost none of their traditional reputation for above average stability.

Varying Experience

Recent bank experience and near term potentials naturally vary according to location in the country, though a general expansion in term loans has broadly helped in bringing interest income to higher levels. Shifts in population and marked industrial expansion, particularly in the Southwest and on the Pacific coast, have created uptrends in deposits and net earnings that for some time to come should benefit banks in those areas. Home building loans, often carrying substantial Government guaranties, have provided profitable sources of income for banks located in all sections, in many cases tending to offset the widespread retirement of farm loans. Indeed, the expansion in real estate loans seems to be more marked in some of the smaller centers than in the large cities.

Reviewing the New York banks first, the status of all Clearing House banks in the metropolis at midyear is interesting to consider. Compared with a year earlier, the average deposits were about $300 million lower, and the rise in reserve requirements since the beginning of the year had the cumulative effect of reducing lendable funds by $800 million more. In the face of this adverse factor, however, this large group of banks earned 6.3% on their capital funds during the six months period compared with 5.7% in the same 1947 interval. This reflects a substantial gain in loans together with higher interest rates, and because of the European Recovery Program, some observers think that loans and operating earnings may expand moderately during the second half.

What trend will develop for net earnings will depend largely upon the impact of higher wage costs, or the possibility that the Federal Reserve Board may decide to immobilize another $400 million by raising its reserve requirements another 2%. All said, the outlook should warrant confidence but hardly enthusiasm. The chances are favorable for net earnings to cover dividend requirements by a very comfortable margin.

The National City Bank of New York and its wholly owned subsidiary, City Bank Farmers Trust Company, pushed their combined resources to above $5 billion in the second quarter. Net consolidated operating earnings of $1.57 per share were only a penny lower than in the same period a year earlier, but profits from sales of securities were sharply lower, reducing final six months net to $1.67 per share compared with $2.01 for the 1947 first half. However, these figures do not include recoveries credited directly to reserves. In line with the general trend among the banks, consolidated holdings of Government securities on June 30 were 4% lower in relation to total assets than at the beginning of the year, whereas the ratio of loans on the same basis rose by 2%. Deposits of $4.7 billion showed a decline of about $250 million during the second quarter.

Good Near Term Outlook

The near term outlook for the National City Bank is brightened by its special operating set-up. The numerous local branches of this institution are handling an increasing number of profitable consumer loans, and the 35 branches in Latin America are exceedingly active. In other parts of the world, too, this bank is providing service on a very broad scale, especially where international trade is involved. The bank has already earned in the first half more than enough to cover dividends of $1.60 per share for the full year, though distributions are hardly likely to become more liberal very soon. Dividends have been paid without a break since 1813, and the 4% yield now available with the shares selling around 40 appears attractive in view of the sound investment quality of the stock.

The Chase National Bank experienced a decline of about $300 million in total assets from January to July, with deposits shrinking by $320 million. The bank however reduced its holdings of

Government securities by 5% of total assets and increased its ratio of more profitable loans in approximately the same degree. Net current operating earnings accordingly rose to $1.27 per share in the first six months compared with $1.11 in the same 1947 period. But the bank lost 21 cents per share on security transactions so that net earnings in the final analysis were down to $1.06 per share. On June 30, loans of $1.46 billion by Chase National were higher than for many years past and income from this source seems likely to expand steadily. Capital and surplus total $265 million and undivided profits now amount to an additional $58.9 million compared with $52.3 million a year ago. The shares, recently priced at 36, have a book value of $43.78.

Total resources of the Guaranty Trust Company at midyear were slightly lower than six months earlier, a $48 million decline representing about 17%. Compared with the end of March, though, total resources, loans and deposits all showed modest improvement. Net operating profits in the first half year developed a nominal uptrend compared with the initial six months of 1947, but a decline of some $450,000 in recoveries along with a transfer of $750,000 to reserves for bad debts brought final net profits to $9.18 million against $9.74 million in the first six months of the preceding year. On a per share basis this would be $9.18 compared with $9.74 on a million shares outstanding. Despite a probable further decline in investment income in coming months, there is a fair prospect that net income for 1948 may equal the $18.28 per share reported for 1947. In any event the $12 annual dividend appears well assured.

Turning to the Pacific Coast, we find the nation's largest bank, the Bank of America, N. T. & S. A. with total resources of $5.8 billion up about $13 million compared with the end of 1947. This bank, with branches scattered all over California, has been sharing significantly in the postwar prosperity of the state in which it operates. As with the big eastern banks, loans have tended to increase substantially while holdings of governments are now smaller. Loan transactions number well above one million annually and as interest rates to small borrowers are usually higher than to others, the bank's earnings continue to develop an uptrend. Net per share reported for the first six months came to $3.23 against $4.23 for the entire year 1947. Considering the current rapid industrial growth of the area served, the outlook for the bank is good. The dividend appears assured and at 46, the shares provide an attractive yield of 4.9%.

While bank shares are by no means riskless, those of the old and firmly established institutions enjoy an exceptionally high investment rating. Of the 12,000 or more insured commercial banks in the country, only six last year had to call the Federal Deposit Insurance Corporation to the rescue, and in 1946 not one applied.

Prices of bank shares generally have not risen in proportion to upswings in the stock market, at least for many months past. To judge our table, appraisals of stock values are based closely upon the yield factor, with less regard for price-earnings ratios and apparently little, if any, for book values. This latter factor deserves consideration in view of the substantial amount of Government securities included among net assets; book values of many bank shares are surprisingly higher than quoted share prices.

International Harvester vs. Oliver Corporation

(*Continued from page* 436)

national Harvester probably has borrowed from open bank lines, which totaled $100 million at the end of its last fiscal period.

In comparing 1947 operating margins of the two companies, it will be seen that the ratio of 10.3% for Oliver was somewhat better than the 9% shown by International Harvester. Oliver's relative advantage on this score was partly due to improved coordination of sales, merchandising and administrative activities in the handling of larger sales. In other words, overhead expenses in 1947 were reduced to only 5.9% of sales compared with 7.2% in the previous year.

Expanded volume brought similar advantages to International Harvester, but from a higher base. The percentage of IHC's overhead and sales expenses to volume fell to 8.2% in 1947

against 11.2% in 1946 but the tremendous activities of this larger concern apparently require relatively higher outlays for supervision and promotion than respective sales would indicate. When it comes to pre-tax marmins, though, the large amount of dividends received by Harvester almost evened up the picture, its ratio being 10% compared with 10.4% for Oliver.

In scanning the ten year net earnings record of the two manufacturers, Oliver earned an average of $2.04 per share compared with $1.49 for International Harvester, indicating that mere difference in corporate size and volume does not necessarily become the determinant factor in income fundamentals. Furthermore, only in 1938 and 1940 did Oliver fail to earn more per share than its competitor during the last decade.

More significantly, perhaps, Oliver's net for six months ended April 30, 1948 jumped to $4.07 per share against $2.01 for IHC. This showing indicates an annual rate of around $8 and $4 respectively. During the last 13 years, Oliver Corporation's aggregate net earnings were around $20.2 million, of which $12.39 million have been plowed back into the business. While these figures might appear small in relation to the dollar showing for Harvester, their bearing on swelling per share earnings is what counts now and may become more weighty during the near term.

The dividend records of these concerns, on the other hand, are another matter in making comparisons. International Harvester has made some payments in every year since at least 1918, before which records are not available. Oliver Corporation began to pay common stock dividends only as recently as 1941, since when regular but varying payments have been made. This brought Oliver's average dividends for a decade down to 53 cents per share against 93 cents for Harvester, on a calendar year basis. But during the last two years the gap has been gradually narrowing.

In calendar 1946, Oliver paid 50 cents per share, followed by $1 in 1947, whereas the relative distributions by International Harvester were $1 and $1.22 per share. This year to date, total Oliver dividends have been $1.25 compared with $1.35 for IHC. In relation to net earnings, Harvester dividends have been more liberal in the past but this was due to its very ample resources. It is quite possible that Oliver's dividend policies may become increasingly liberal as its expansion and modernization program nears completion; during the first half year it distributed only about 30% of net earnings.

Turning to balance sheet figures, International Harvester had working capital of $233.3 million at the end of fiscal 1947. While this compares with $317 million at the end of 1945, the current ratio of 3.2 indicates a very satisfactory financial status despite large sums spent in the company's expansion program. In part, this has been made possible by the increasingly affluent position of dealers and farmers in recent years, with the result that cash discounts have substantially replaced rather long term credits. Back in 1940 when IHC sales were only $274 million, it had to carry net receivables of $95.1 million. With sales of $741 million in 1947, net receivables were only $28 million. Harvester's inventory status is comfortable, also, and its cash holdings are about a third of current assets.

These same favorable factors have helped to ease the financial problems of Oliver Corporation at a time when its capital needs in postwar were substantial. Net working capital has expanded from $11.5 million in 1938 to $27.2 million in 1947, partly due to retained earnings and in part to the sale of preferred stock in 1944, though a moderate shrinkage has occurred in the last year or two. As it happens, Oliver also has a current ratio of 3.2, exactly the same as its competitor, and its ratio of trade receivables to sales has declined in much the same manner. The inventory position of this concern is satisfactory with inventories representing only 35% of sales compared with about 50% in 1941.

As to relative merits of the shares of International Harvester and Oliver, it should be realized that both represent equities in an industry that is highly sensitive to cyclical changes, thus enhancing their long term speculative aspect. The fine long record of dividend payments by Harvester, nevertheless, tends to strengthen the investment fundamentals of the stock, while an impregnable financial status and a dominant position in the industry lend confidence in its future operations. The price of IHC shares during

the current year has held within a rather narrow range of 34¼-32⅛.

Oliver Corporation is an example of vigorous growth during recent years, though its dividend record is short, dating back to 1941 and thus coinciding with the exceptionally favorable conditions of the war and postwar period. A relatively compact organization is in its favor and due to the current bright market conditions in its field, the company can capitalize impressively on its outlays for modernization. That speculative regard for Oliver's shares has improved of late is shown by an advance in price from 22⅝ early this year to a recent level of around 36. Dividend yield on both shares at present is not very attractive but the chance of medium term improvement by Oliver appears stronger. On balance there seems to be no doubt of the more desirable investment fundamentals of International Harvester shares, but the appreciation potentials of Oliver stock seem more clearly marked.

Earnings Trends During The First Half

(*Continued from page* 425)

fall, and since then a downtrend in sales and net earnings has been characteristic of most of the major concerns. General Tire & Rubber's sales for 6 months ended May 31 came to only $46.7 million compared with $61.7 million in the same interim period of 1947. Rather naturally net earnings declined sharply, but at about an equal rate with the volume decline. Good control of costs must have prevented a steeper dip in earnings, for the company's break-even point had been forced high. In the face of reduced export orders in recent months and a slight further downtrend in domestic sales, the rubber manufacturers as a rule have cut production schedules, but instead of lowering prices, they have, one by one, announced price advances to compensate for higher costs. Since orders for rubber products are still much above prewar and automobile production is increasing, dollar sales may soon trend upward in this industry, provided no price war starts; in this event some improvement in earnings may follow as the year unfolds. In any event an extension of the recent downtrend in earnings is unlikely.

A 20% rise in sales reported by Hayes Manufacturing Company during the 6 months ended March 31 was accompanied by an even more significant upspurt in net earnings to $1.58 per share, compared with 89 cents for the same period a year earlier. This earnings gain reflects a relative improvement in operating conditions, with no hampering strikes and with a more ample supply of materials. Product diversification also has broadened the company's arkets and demand has been such that firm prices have been easily sustained. Under existing condition in the automotive parts industry, a further uptrend in volume and profits could be in store for this concern, though its prewar record was rather drab.

Loew's, Inc., in common with many other moving picture concerns, made a poor showing earningswise in its latest interim report. For 40 weeks ended June 3, net earnings were reported as 92 cents per share compared with $2.12 for the corresponding period in 1947. Falling attendance in the company's theater chain partially accounted for the poorer showing, but in the main the impact of heavy production costs and reduced revenues from England has squeezed profit margins severely. There is a good chance, though, that net earnings of this concern may soon reverse their downtrend, due to strong efforts to produce forthcoming pictures at far lower costs than formerly seemed advisable. On the other hand the possibility that the company may have to divest itself of its theaters under court rulings clouds the longer term outlook, though disposal of these valuable income producing units may bring a windfall to Loew's shareholders.

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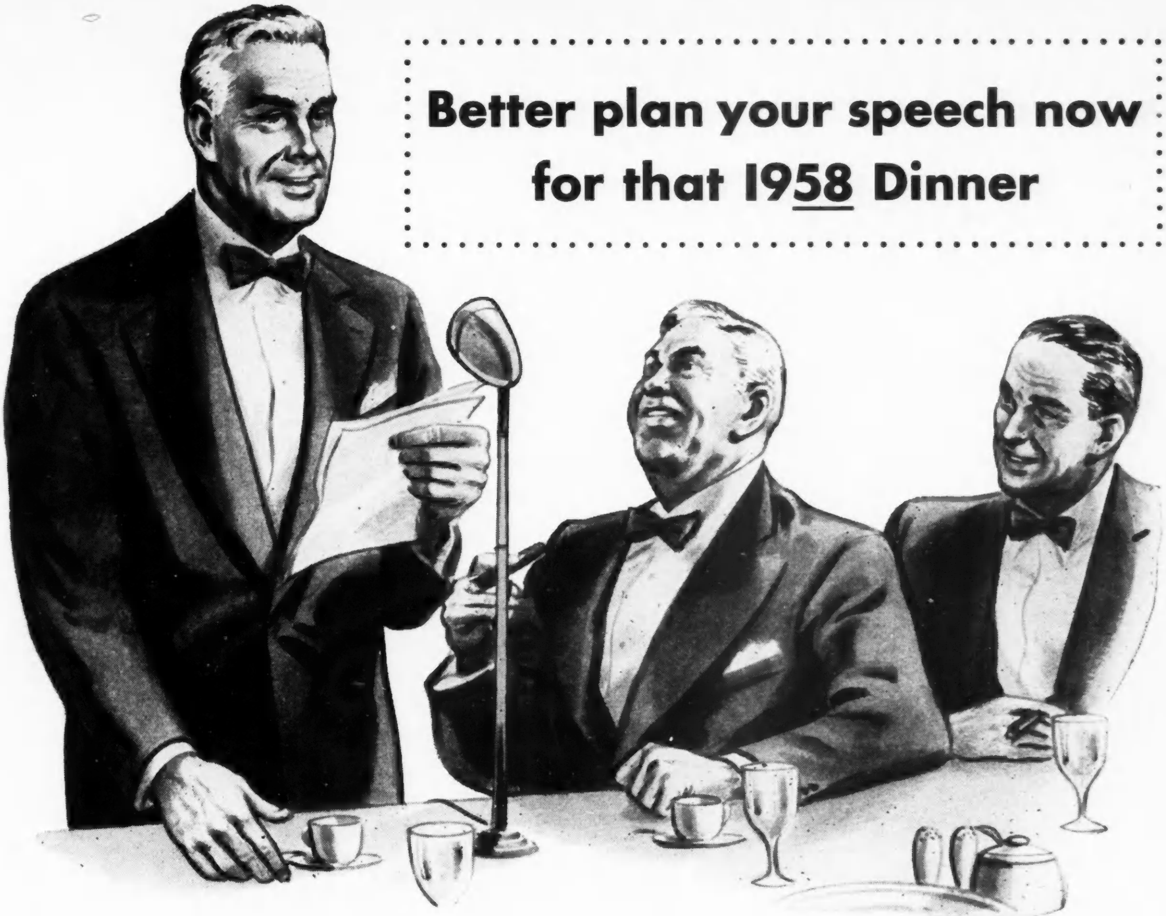

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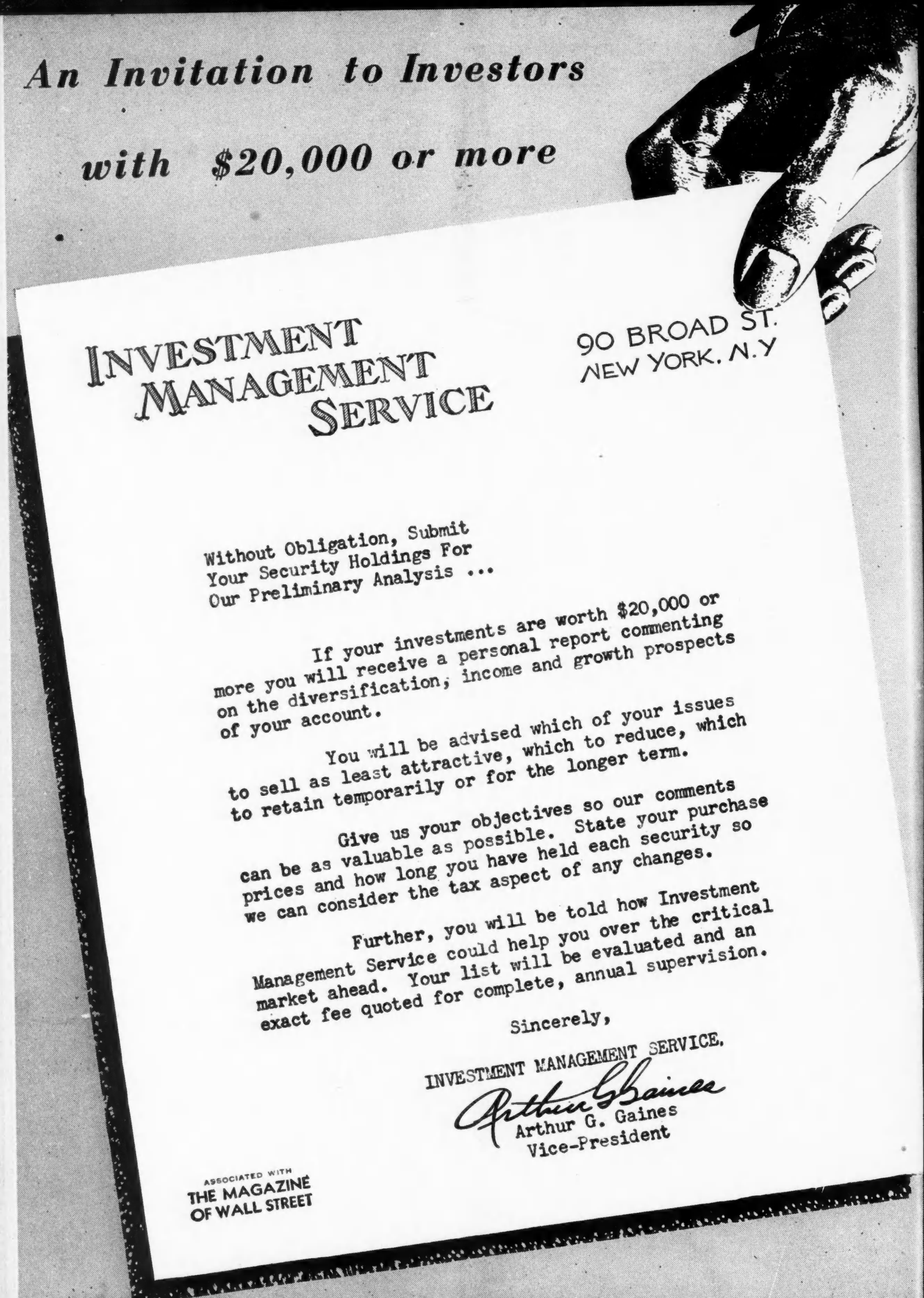

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